

Report to: Cabinet



Date of Meeting 2 March 2022

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Energy Services Company for the Cranbrook Expansion Areas

Report summary:

This report details the outcome of a bid to the government's Heat Network Development Unit to secure funding for consultancy support to undertake a procurement exercise to enable the establishment of an Energy Services Company to serve the Cranbrook expansion areas. This will enable the continued roll out of a district heating network in the town which in turn will make a major contribution to meeting the zero carbon development policy objective. The report recommends that match funding is provided from the Climate Action Plan budget and that a Memorandum of Understanding is entered into.

Is the proposed decision in accordance with:

Budget Yes No

Policy Framework Yes No

Recommendation:

That Cabinet;

- Recommends that £50k is provided from the Climate Action budget to match fund the HNDU award
- Recommends that the Service Lead – Growth, Development and Prosperity and Section 151 officer sign the Memorandum of Understanding on behalf of the Council

Reasons for recommendation:

To secure funding from the Heat Network Development Unit programme.

To support the delivery of zero carbon development in the Cranbrook expansion areas.

Officer: Andy Wood, Service Lead – Growth, Development and Prosperity, email adwood@eastdevon.gov.uk tel 01395 571743

Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Democracy, Transparency and Communications
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities
- Tourism, Sports, Leisure and Culture

Equalities impact Low Impact

Climate change High Impact

Risk: Low Risk;

Links to background information

[Cabinet report Towards Zero Carbon Development in the West End](#) item 412

[Heat Networks: Building a Market Framework: government response to a consultation \(publishing.service.gov.uk\)](#)

Link to [Council Plan](#)

Priorities (check which apply)

- Better homes and communities for all
 - A greener East Devon
 - A resilient economy
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1. Background and context

1.1 Cabinet has received a series of reports regarding the roll out of district heating networks in the West End of the District. These will play a critical role in underpinning the ambition for the large scale delivery of low and zero carbon development. The most recent report was in May 2021 which set out that a bid to the government's Heat Network Investment Programme had been successful with an offer of over £10m of funding being made. This was to support the decarbonisation of the two existing heat networks (Cranbrook/Skypark and Titebarn/Monkerton/West Clyst) by utilising recoverable heat from heat sources at Hill Barton business park including a forthcoming Energy from Waste plant. An interconnector pipe of approximately 5KM in length would run between Hill Barton and both networks.

1.2 Work to develop the detailed business case for the interconnector pipe is underway and will be reported to Cabinet shortly. Subject to this being approved, the project will enable the Council to play a leading role in enabling the bulk supply of low carbon heat. Contractually this will involve buying heat from Stuart Partners and selling it to E.ON who are the Energy Services Company for the two current concession areas listed above. E.ON then provide heat to the individual households and businesses including all associated billing and maintenance.

1.3 The Cranbrook Plan sets out policies and proposals to guide the expansion of the town from 3,500 homes to just shy of 8,000. This framework sets out that the additional homes will be delivered to a zero carbon standard including a requirement to connect to the district heating network. It is important to emphasise that this is our most ambitious carbon policy. In seeking 100% carbon savings it is not only more demanding than the forthcoming national Future Homes Standard, which is expected to require 75% carbon savings relative to current building standards, it is all being introduced more quickly. There are currently live planning applications for circa 3,000 homes with an aim for resolutions on these to be reached following final adoption of the Cranbrook Plan. The Future Homes Standard is not due to be introduced until 2025.

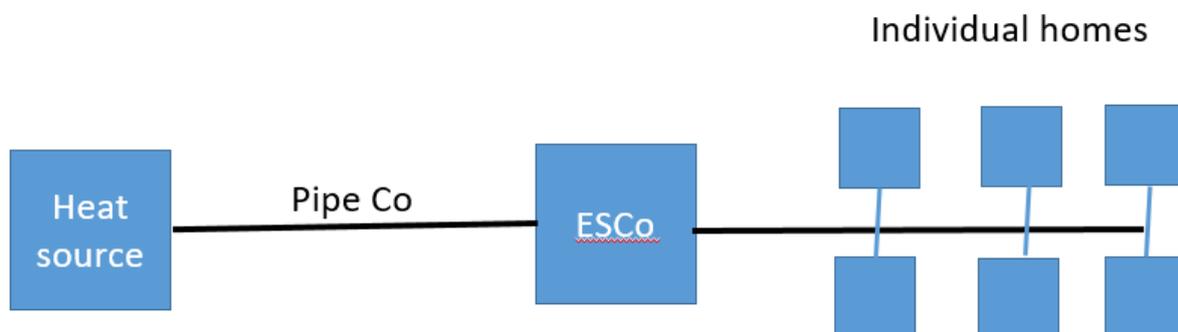
1.4 In 2015 the Climate Change Committee (CCC) estimated that around 18% of UK heat, up from 2% currently, will need to come from heat networks by 2050 if the UK is to meet its carbon targets cost-effectively. The government has subsequently introduced a range of policy and financial measures to support the enhanced roll out of district heating networks. This includes a commitment for Ofgem to become the regulator for heat networks including setting price controls (see background links).

2. Energy Services Company

2.1 The roll out of district heating will play a key role in providing the majority of the carbon savings needed to get to a zero carbon standard for the Cranbrook expansion areas. Recent analysis

suggests that the interconnector project will support carbon savings of in excess of 80% in this respect.

2.2 It is important to emphasise that the interconnector project delivers a bulk supply of heat. It is then the role of the Energy Services Company (ESCo) to service individual households. This is shown schematically below;



2.3 E.ON were appointed by the New Community Partner developer consortium in 2010 to serve the first 3,500 homes at Cranbrook. The expansion areas will though come forward outside of a single consortium structure. Subsequently there is a risk that individual developers will contract with separate ESCOs to serve different expansion areas. This approach would lack economies of scale, potentially resulting in higher connection fees and also runs the risk of having multiple different tariffs structures across the town.

2.4 In order to avoid these potential inefficiencies a bid was made to the BEIS Heat Network Development Unit programme to secure consultancy support to undertake a soft market testing exercise to help secure a single ESCo provider to serve all of the expansion areas. This approach has a number of advantages including helping to bring the various developer/landowner parties together and avoiding just defaulting to the incumbent provider (E.ON) in terms of servicing the expansion areas by undertaking a competitive exercise.

2.5 The bid was submitted in November 2021 and it was subsequently confirmed in January that this had been successful. The financial aspects of this are set out below;

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2.6 The Memorandum of Understanding (MoU) contained at Appendix A also needs to be signed to access the funding.

2.7 Specific recommendations are made in this report to enable the Service Lead – Growth, Development & Prosperity to sign the MoU and to dedicate £50k from the Climate Action budget to provide the required match funding as highlighted in the table above.

3. Conclusion

3.1 District heating is the preferred technology to support the large scale delivery of low and zero carbon development in the West End of the District. In conjunction with the main interconnector project, securing an ESCo to serve the Cranbrook expansion areas is a critical part of the approach to meeting the zero carbon policy objective. The funding award will help to undertake a competitive exercise to secure a cost effective solution. This will help to tap economies of scale and avoid multiple different tariff structures in the town.

Financial implications:

The request is to utilise the 2021/22 Climate Action budget for £50k. The budget for the year is £323k and there is a sufficient sum unallocated to meet this request.

Legal implications:

There are no specific legal implications requiring comment.