

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	17 th August 2016
DIRECTOR	Pete Leonard
TITLE OF REPORT	Energy Services Company
REPORT NUMBER	CHI/16/153
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

This report sets out a proposal for ACC to establish a strategic Energy Services Company (ESCo), as an arms-length external organisation (ALEO) wholly owned by the Council to manage all energy related activity undertaken by ACC with the option to expand and develop energy related services over time.

This proposal has been the subject of a detailed business case which is attached to this report (Annex 1) and contains an options appraisal, risk assessment and reviews the opportunities and challenges in taking this route.

The establishment of an ESCo will provide a mechanism to deliver the objectives of Powering Aberdeen. It will also establish the skills set to manage the energy generating activity being developed by the Council such as the energy from waste plant and excess heat and power from the energy centre at the AECC. It will also allow future development of a range of energy related services.

2. RECOMMENDATION(S)

To instruct the Director of Communities, Housing and Infrastructure to proceed with developing a detailed business plan for a strategic Energy Services Company (ESCo), as an arms-length external organisation (ALEO) wholly owned by the Council to manage all energy related activity undertaken by ACC with the option to expand and develop energy related services over time. This would include proposals for the following:

- A legal structure for the organisation
- A governance structure

- Identify a priority project list
- A staff and management structure and job descriptions
- Initial resource and funding requirements
- An initial business plan for the first three years.

To instruct the Director of Communities, Housing and Infrastructure to establish an interim informal Working Group led by a project manager to take forward the development of a detailed business plan. The Working Group would include relevant internal energy experts as well as elected members and representatives from legal and finance.

3. FINANCIAL IMPLICATIONS

There will be costs associated with the development of the business plan as set out above. Some external support will be required in particular around assessing the commercial implications and developing the financial models. These costs are estimated to be in the region of £30,000-£45,000, the Corporate/SIP Group is to advise on the source of funding.

The costs of setting up the ESCo will be detailed in the business plan. As part of developing the business plan Council officers will investigate possible routes for external funding to support the setup of the ESCo. The information in the detailed business plan will provide the information necessary for the Council to make a decision on the best route to fund the establishment of the ESCo.

4. OTHER IMPLICATIONS

There are financial, legal, resource and procurement implications in establishing an ESCo. It is proposed that the interim informal Working Group put in place to develop the business plan should include representatives from legal, finance, commercial and procurement and PMO as well as those currently involved in the delivery of energy related services.

5. BACKGROUND/MAIN ISSUES

Introduction

In May 2016 the Aberdeen City Council (ACC or the Council) approved Powering Aberdeen – Aberdeen’s Sustainable Energy Action Plan (SEAP). The plan aims to cut carbon emissions across the city by 31% by 2020 and 50% by 2030. It identifies substantial social, economic and environmental benefits from achieving these targets including the elimination of fuel poverty and potential to diversify the economy in Aberdeen.

The plan proposes actions in the areas of energy efficiency, renewable energy, energy from waste, district heating, alleviation of fuel poverty and sustainable transport. In leading the implementation of the plan the Council needs to be clear and consistent about its priorities, lead by example and foster collaboration with wider stakeholders.

There are already a number of projects underway that are being developed and funded by the Council that support the ambitions of Powering Aberdeen and will make ACC a more significant player in the energy market. These include the development of the Energy from Waste plant at Tullos that will generate heat and power for onward sale as well as the Anaerobic Digestion plant and energy centre being developed at the AECC that will provide the opportunity to generate excess heat and power for sale beyond the AECC site boundary.

To deliver these projects and the activity envisaged within Powering Aberdeen additional skills and resources are required that are not currently available within the Council. These include metering, billing, customer service, energy trading, delivery and implementation skills such as project management, commercial and transactional capability as well as access to wider funding markets. The establishment of an Energy Services Company (ESCO) will provide a vehicle to manage this activity.

What is an ESCo

An ESCo is a descriptive term for an entity which is in some way involved in the provision of energy services. This can be the generation, transmission, distribution and supply of energy but also supporting services such as energy efficiency, energy savings, renewable/sustainable energy and/or emission reductions.

An ESCo could be a public sector organisation, a private sector organisation or a joint venture between two or more organisations. An ESCo can be established as profit or not for profit.

ESCO structures have existed for a number of years and have been established by a number of authorities in England. A number of Scottish authorities are now examining the potential for such entities with some in active consideration or process of establishment. ESCo's have been developed to help tackle the issues of fuel poverty, system resilience, investment in local clean energy while boosting jobs and growth in the local economy.

Options Appraisal

An options appraisal has been undertaken which is detailed in the attached business case (Annex 1) to consider the most appropriate structure for an ESCo for Aberdeen City Council (ACC). The following options were considered:

- *In House* – This option considers retaining the energy related services in house using existing resources with the recruitment of additional resource as necessary.
- *ESCO - Joint Venture* – this option considers setting up the ESCo as a joint venture with a private sector partner to share risks and costs.
- *ESCO-project specific* - this option involves setting up ESCos on a project specific basis, such as to manage the heat and power from the Energy from Waste plant and develop and build the associated heat network.
- *ESCO-Strategic-wholly-owned* – this option considers setting up a strategic ESCo wholly- owned by the Council with a wide-ranging energy efficiency scope. It can therefore develop partnerships and new ventures as it sees fit, subject to approval through a business planning and governance process that will allow the Council to influence it's direction.

The options were then evaluated against key criteria developed in consultation with ACC staff. On the basis of the options appraisal and evaluation it was determined that a strategic wholly owned ESCo was the most suitable vehicle to deliver on the Council's objectives.

The proposition

To establish an ESCo that should not be limited in scope. This will allow it to develop and evolve services and projects in response to customer demand and a rapidly evolving market.

A wholly-owned strategic ESCo could fulfil its role directly and by entering into partnership with investors and communities (perhaps through project specific special purpose entities, joint venture entities or social enterprises) or it might facilitate partnerships between others. Critically, it needs to be entrepreneurial and collaborative in its outlook, quick to respond to opportunities, imaginative with its solutions and commercially astute.

The business case has already identified a range of projects already being undertaken or considered by ACC that could be considered for inclusion in the ESCo. These include for example:

- Sale of heat and power from the Energy from Waste plant and the development and establishment of the associated heat network.
- Provision of domestic energy efficiency services by project management of projects and services currently delivered in-house and by potentially supplying the contracting services.
- Potential to provide a wider range of energy efficiency services for both Council and non-Council buildings possibly through energy performance contracts.

- Growing energy generation capacity through for example a solar PV farm at former Ness landfill

The activity to be undertaken and the potential structure of the ESCo now needs to be the subject of a detailed business plan.

An important element of the business planning process will be to establish the role of AHP which already exists as an ESCo to manage specific energy services associated with developing heat networks. Early discussion has taken place but further more detailed consideration is necessary to determine the most effective way of bringing the ESCo and AHP together to deliver Powering Aberdeen. Options might include evolving AHP to become a wider entity or an activity within the new body.

Challenges

- *Investment required to set up the ESCo*- ACC will need to invest in setting up the ESCo, establishing it as a legal entity, bringing in appropriately skilled resources to manage and run the ESCo and establishing an appropriate governance structure.
- *Attracting the necessary skill base* – the success of the ESCo is dependent on being able to invest in and attract people with the necessary skills. This involves the need to offer competitive salaries and benefits.
- *Finding the right partners* – the success of the ESCo in progressing projects will depend on finding the appropriate partners given the complexity of energy projects. The careful selection of the right partner for a particular project will be an important activity for the future ESCo.
- *Managing commercial risks* – any commercial organisation carries with it commercial risks. This needs to be considered when establishing the entity and developing the various contractual models to deliver specific projects. These risks will be considered in more detail during development of a detailed business plan and appropriate mitigation measures identified to manage them.
- *Retaining influence* – In setting up an ESCo there may be concerns about ACC's ability to retain influence over the services run through the ESCo. There will be a balance to be had between allowing the ESCo the flexibility to be able to respond to market issues while at the same time ensuring it is delivering ACC's objectives. This will be addressed in detail in the business plan and governance structure.

Opportunities include:

- *Initial investment* – although there would be costs in establishing the ESCo, ACC is in a unique position in that it has already

committed investment for the development of energy generation activity that could be assigned to the ESCo.

- *Income generation* - The aim of the ESCo is to be self-sustaining and potentially to generate income for the Council through the energy projects it develops.
- *Offering affordable, competitive heat and power* – through the ESCo Aberdeen will be able to offer heat and power across the city at affordable, sustainable prices to both businesses and residents. The potential to establish a local tariff with appropriate metering and billing mechanisms will be developed as part of the detailed business planning process. An important consideration will be to ensure the Council develops the ability to offer those in fuel poverty heat and power at affordable, sustainable prices.
- *Developing the heat network* – ACC has ambitions to extend the existing heat network into the city centre and beyond. Bringing all activities that produce heat under one body will make strategic planning for expansion of the heat network easier. It will also provide a more viable entity through which to raise capital and funding for this expansion either through partnership or raising capital from third parties.
- *Attracting investment* – the ESCo as a separate body to the Council is likely to be better able to attract project finance either through private sector investment or other finance bodies. The extent to which ACC may be required to underwrite any of these deals will need to be carefully considered as part of the risk assessment to accompany a detailed business plan. Such an underwriting could be through financial support or guaranteeing a level of offtake from generating plant.
- *Opportunity to reinvest* – by establishing the ESCo as a commercial entity any profit can be reinvested in a way deemed suitable by the ESCo, arrangements for management of profits need to be established when the ESCo is formed.
- *Employment opportunities* – the establishment of the ESCo will require the need to employ a number of people with the necessary commercial, financial and business development skills to establish and grow the ESCo. There will then be the opportunity to increase employment opportunities in specific projects as the ESCo grows.
- *Skills development* – the ESCo will provide the opportunity to develop a local skill base for the activity delivered by the ESCo in particular relating to alternative energy and the low carbon economy.

- *Greater energy security* – by establishing a local energy company incorporating local energy generation and distribution ACC will increase energy security for the people and businesses in Aberdeen city and potentially beyond.

Improving Customer Experience –

A local ESCo will present the opportunity to provide the local community and businesses with affordable, sustainable heat and power at competitive prices.

Improving Staff Experience –

The establishment of the ESCo will offer potential opportunities for staff that might wish to relocate to the ESCo which could open up personal development opportunities. The business planning process will identify the potential roles and how the consultation and TUPE transfer process would operate.

Improving our use of Resources –

Bringing all energy related services into one organisation will improve the efficiency with which these activities are delivered. Some of the services currently provided directly by the Council are likely to move into the ESCo if appropriate business cases can be made. This will mean they will be delivered commercially rather than at a public cost. The ESCo will be involved in a promoting energy efficiency as part of its remit which will help improve resource efficiency across the city.

Corporate -

The ESCo will support Aberdeen City Council deliver Powering Aberdeen which seeks to reduce carbon emissions by improving energy efficiency, increasing use of renewable and alternative energy, managing resource more efficiently and moving to more sustainable transport.

The ambitions of Powering Aberdeen are also echoed in:

- Aberdeen-The Smarter City - Smarter Environment, a core theme within this sets high level priorities to increase energy efficiency and introduce carbon reduction measures.
- The Community Plan and Single Outcome Agreement - sets the ambition for Aberdeen to be a socially, economically and environmentally sustainable city.
- The five year business plan 2013-2018-sets sustainable economic growth for the benefit of national outcomes as a key priority.

Public –

This report is likely to be of interest to the citizens and businesses in Aberdeen as the ESCo will, over time increase energy security in the city and open up the opportunity to purchase energy from a local supplier at more affordable, sustainable prices. In particular it will be of interest to the community in Tullos who will benefit directly from

renewable heat generated by the Energy from Waste plant as the ESCo will provide the delivery mechanism to achieve this.

MANAGEMENT OF RISK

The risks relating to the decision to move to establishing a detailed business plan are summarised in the table below. The wider risks associated with establishing the ESCo will be considered in detail in the business plan.

Risk	Risk Level	Mitigation/Control
Lack of internal expertise to develop the business plan	Low	External expertise as considered necessary will be incorporated into the project team to ensure that financial modelling, risk management and legal issues have the appropriate level of input.
Lack of resource to progress the business plan in a reasonable timescale	Low	A project manager will be assigned to the project who will be supported by an informal Working Group that will have the specific remit to deliver the business plan in line with the agreed timescales.

8. BACKGROUND PAPERS

- Aberdeen City Council Business Case: Establishing an ESCo (Annex1)
- Powering Aberdeen: Aberdeen's Sustainable Energy Action Plan

9. REPORT AUTHOR DETAILS

Terri Vogt
 Powering Aberdeen-Programme Manager
 Tevogt@aberdeencity.gov.uk
 01224 522677

Pete Leonard
 Director CH&I
 pleonard@aberdeencity.gov.uk
 01224 523899