

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Finance and Resources
<b>DATE</b>	30 <sup>th</sup> January 2024
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Torry Heat Network : Future Operations
<b>REPORT NUMBER</b>	RES/24/026
<b>DIRECTOR</b>	Steve Whyte
<b>CHIEF OFFICER</b>	Stephen Booth, John Wilson
<b>REPORT AUTHOR</b>	Mai Muhammad, Bill Watson
<b>TERMS OF REFERENCE</b>	1.1.2, 1.1.3, 1.1.8, 2.1.1, 4.1

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### 1. PURPOSE OF REPORT

- 1.1 On 21 September 2022 the City Growth and Resources Committee sought an update on commercial discussions with a number of organisations, located in Torry, related to the potential uptake of an alternative form of heat supply.
- 1.2 Bearing in mind the extent of the constructed and planned phased delivery for the new Torry Heat Network, now is an appropriate time to update the Finance and Resources Committee (formerly City Growth and Resources Committee).
- 1.3 In addition, the report seeks approval for progressing the methodology in setting the heat sales price and to progress further commercial agreements which would benefit the viability of the wider heat network.

### 2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Notes the current status of discussions held with Commercial Organisations and the potential additional opportunities with others to maximise the financial and carbon savings as the network is extended.
- 2.2 Delegates authority to Aberdeen Heat and Power to enter into heat supply agreements with both commercial and domestic customers, subject to the terms set by the Council's annual budget decisions; and approves the methodology for the setting of heat sales prices outlined in section 4.2 of this report.

### 3. CURRENT SITUATION

#### Network Background

- 3.1 The City Growth and Resources committee of 21 September 2022: authorised that commercial discussions be held with a number of organisations regarding

their potential uptake of an alternative form of heat supply. At that point in time two organisations had shown an interest;

- Grampian Housing Association with regard to the potential supply of heat to their proposed mixed-use re-development of the former Victoria Road school; and
- Ark Housing Association with regard to the potential supply of heat to their Balnagask Court premises.

3.2 Since item 3.1, Aberdeen Heat and Power have been appointed to operate the new heat network on behalf of Aberdeen City Council. This appointment has included the requirement to undertake preliminary discussions with potential heat supply customers. Discussions are on-going with both Grampian HA and Ark HA.

3.3 Should the Committee approve the recommendations of this report it is intended that Aberdeen Heat and Power will then endeavour to enter into commercial heat supply agreements at a time which is acceptable to both (i) Grampian Housing Association, and (ii) Ark Housing Association.

3.4 As the new network is extended through future phases the intention would be that Aberdeen Heat and Power seek to enter further heat supply agreements with other potential commercial heat supply customers, so as to maximise the financial and carbon saving opportunities for the heat network. For example, it is noted that the Scottish Government's Facility Services have expressed an interest in the potential for this network to supply heat to the Marine Laboratory.

### **Heat and Power Supply Agreements**

3.5 Aberdeen Heat and Power have been tasked with promoting the benefits of connecting to the heat network for heating and hot water to potential domestic customers. Should the Committee approve the recommendations of this report it is intended that Aberdeen Heat and Power shall seek to enter heat supply agreements with these potential domestic customers.

## **4. FINANCIAL IMPLICATIONS**

4.1 Going forward the progress delivery of the project will be reported through regular updates, within the Capital Programme Update Report which will provide details of an increased grant (circa £3.5m) which has been awarded by the Scottish Government.

4.2 One the conditions of this increased grant relates to the provision of a *"methodology to be used for the setting of heat sales rates"*. The methodology below is proposed to fulfil this requirement;

It is proposed that Council Officers following discussion with Aberdeen Heat and Power will make annual financial proposals to the Council, and that they will:-

- propose heat prices for each category of customer, for the forthcoming year;

- take cognisance of the requirements of the Heat Networks Metering and Billing Regulations;
- take cognisance of the requirement to balance the financial sustainability of the organisations and the alleviation of fuel poverty;
- take cognisance of the state subsidy restrictions, with regard to heat pricing for commercial customers; and
- propose heat prices on a City-wide, blended basis; and

That the Council will then make decisions with regard to these proposals, as part of the Council's annual budget process.

- 4.3 Following Council approval, any decisions will be incorporated within the Heat Supply Agreements that will be offered to potential domestic and non-domestic customers of this new heat network.

### Life cycle replacements

- 4.4 For awareness it is highlighted to members that there will inevitably be on-going maintenance costs of the network. The estimated capitalised life cycle replacement costs are summarised in the following table.

Category	Estimated Capital Cost	Year Incurred	Comment
HDF M&E plant	£ 1.376 m	Every 25 years	Boilers etc., approximately 50% of original capex, pipework etc remains.
District heating network (underground pipe)	£ 0.181 m	From year 20 recurring	Assumed 50 year overall lifespan but replace at 2% per year from year 20 at expiry of manufacturer warranty
EfW Heat Exchangers	£ 0 m	n/a	It has been agreed that this would be the responsibility of the EfW operator
Above ground distribution pipe	£ 0.661 m	Every 40 years	Assumed replaced at 40 years, 100% of original capex
DH interfaces, non-domestic buildings	£ 0.544 m	Every 20 years	Assumed heat exchangers controls and valves replaced at 20 years, 75% of original capex
DH interfaces, domestic properties	£ 4.531 m	Every 15 years	Assumed heat exchangers controls and valves replaced at 15 years, 75% of original capex

4.4 In the project's financial model these are allowed for by creation of a sinking fund towards a reserve for infrastructure replacements. A potential goal is that the new network becomes revenue self-sufficient, however this has to be balanced with consideration of fuel poverty.

## 5. LEGAL IMPLICATIONS

5.1 The proposed investment by Aberdeen City Council to create a new heat network is considered to be in compliance with Subsidy obligations as set out in the statutory guidance and the Subsidy Control Act 2022 with regard to the creation of low carbon heat networks. Legal advice has been obtained on this and the proposals have been designed to ensure that this compliance is maintained.

5.2 These proposals have been developed in a manner which takes into account current and proposed regulations for the suppliers of heat. Consideration has been given to the impact of the Heat Networks (Scotland) Act 2021, Heat Networks Metering and Billing Regulation and Scottish Government Heat in Buildings Strategy, Local Heat and Energy Efficiency Strategy

5.3 There is no other relevant legislation, foreseen at present, that needs to be accounted for.

## 6. ENVIRONMENTAL IMPLICATIONS

6.1 Proposals have been prepared, which assist the reduction of the City's carbon emissions, and which assist the development of a Low Carbon regional economy.

6.2 Heat networks provide low carbon heating and hot water for domestic and non-domestic properties reducing the reliance on individual gas boilers and reduces building's operational carbon emissions. Heat networks in Aberdeen City are pathways towards net zero through decarbonisation of heat.

## 7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H)  *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
<b>Strategic Risk</b>	Potential for non-delivery of Heat Network project, which would negatively impact on the development of	Proposals have been prepared, which deliver on this strategic requirement.	L	Yes

	a Low Carbon regional economy			
<b>Compliance</b>	<p>Non-compliance with subsidy control obligations and legislation.</p> <p>Delay in securing legal rights to lay the Heat Network infrastructure over jointly owned property (including a right of access for operation and maintenance)</p> <p>Compliance with future Heat Network Regulations</p>	<p>External legal advice has been obtained and is to be followed.</p> <p>A significant programme allowance has been allowed against this risk, in this Report</p> <p>The specification and financial model allow for the additional costs that may arise from the legislation currently being considered by the Scottish Parliament</p>	<p>L</p> <p>M</p> <p>L</p>	<b>Yes</b>
<b>Operational</b>	An operator cannot be found to operate and maintain the district heating network.	Aberdeen Heat and Power (an Arms Length External Organisation of the Council) have been appointed to operate this network	L	<b>Yes</b>
<b>Financial</b>	The bids received for the Construction and installation of the network are in excess of the reported budget costs.	The scope of the current Phase 2 works contract is restricted, so as to remain within the currently approved budget. This report seek approval for this budget to be	L	<b>Yes</b>

	Revenue costs requiring further ACC funding	<p>increased so as to allow the full extent of the works envisaged on 21<sup>st</sup> September 2022 to be delivered.</p> <p>This network will generate income which will contribute towards its running and eventual replacement costs. Options for setting heat supply rates are reported within item 4.2.</p>	L	
<b>Reputational</b>	<p>Potential for non-delivery of Heat Network project</p> <p>Potential for cost of heat not to be lower than the alternatives</p>	<p>Proposals have been prepared, which deliver on this core requirement.</p> <p>Proposals have been prepared, which deliver on the core requirement of providing lower heating costs to the tenants of social housing. Options for setting heat supply rates are reported upon within item 4.2.</p>	L	<b>Yes</b>
<b>Environment / Climate</b>	Non-delivery of this project will have a significantly adverse impact on the City's carbon emissions.	Proposals have been prepared, which deliver on the core requirement of reducing the City's carbon emissions.	L	<b>Yes</b>

## 8. OUTCOMES

<u><a href="#">COUNCIL DELIVERY PLAN 2023-2024</a></u>	
	<b>Impact of Report</b>
<b>Aberdeen City Council Policy Statement</b>  <u><a href="#">Working in Partnership for Aberdeen</a></u>	This project will contribute towards: <ul style="list-style-type: none"> <li>- maximising community benefit from major developments</li> <li>- the development of the non-oil and gas economic potential of the city.</li> </ul>
<u><a href="#">Aberdeen City Local Outcome Improvement Plan 2016-26</a></u>	
Prosperous Economy Stretch Outcomes	The construction programme for this heating project will support the local economy, employment and training during a period of relatively subdued construction activity.
Prosperous People Stretch Outcomes	The Council is committed to improving the key life outcomes of all people in Aberdeen City. The availability of affordable heating contributes to this objective by providing choice and opportunities which would otherwise not be available
Prosperous Place Stretch Outcomes	The Council is committed to ensuring that Aberdeen is a welcoming place to invest, live and visit and operate to the highest environmental standards. The availability of low cost, low carbon heating contributes to this objective.
<b>Regional and City Strategies</b>	The proposals within this report support the desire for Aberdeen to be a sustainable and smart city which meets the needs of present and future generations

## 9. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Integrated Impact Assessment</b>	Stage 1 Assessment has been completed.
<b>Data Protection Impact Assessment</b>	not required
<b>Other</b>	not applicable

## 10. BACKGROUND PAPERS

- 10.1 Special Council meeting on 24<sup>th</sup> October 2016, decisions
- 10.2 Communities, Housing and Infrastructure Committee on 24<sup>th</sup> January 2017, report
- 10.3 Communities, Housing and Infrastructure Committee on 24<sup>th</sup> May 2017, report
- 10.4 Council, 4<sup>th</sup> March 2019, report Joint Energy from Waste Project Contract Award
- 10.5 General Services Capital budget 2022, approved 7<sup>th</sup> March 2022.

The Heat Network budget is listed under “Fully Legally Committed Projects” on page 3.

- 10.6 Housing Revenue Account budget 2023-25, approved 1st March 2023.

The Torry Heat Network aspects fall under section 3.3 on page 81 of the (Public Document Pack) Approved Budgets.

- 10.7 City Growth and Resources on 28<sup>th</sup> October 2020, “Torry Heat Network – Third Progress Report”
- 10.8 City Growth and Resources on 21<sup>st</sup> September 2022, “Torry Heat Network – Fourth Progress Report”

## 11. APPENDICES

None

## 12. REPORT AUTHOR CONTACT DETAILS

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