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|  | **Redesign Board Workshop** |
| **Date:** | **14th November 2017** |
| **Briefing Title:** | **Update on the implementation of Project Catalyst energy opportunities** |
| **By:** | **Director of Development & Infrastructure** |

*Purpose*

To update members of the Redesign Board on the status of a number of opportunities associated with Project Catalyst, namely:

* Energy supply
* The installation of solar PV across the Council estate
* Reducing energy consumption through efficiency and behavioural change activities
* Procuring a company that the energy supplies of void Council houses could be switched to.

*Energy supply*

A key opportunity associated with Project Catalyst was securing an energy supply licence, enabling the Council to supply electricity and gas to customers.

By early October this work had advanced significantly. At a Redesign Board workshop on 10th October Members approved that a formal Board meeting be convened to review and approve the business case with a view to recommending it to Council on 26th October.

However, on the evening of 10th October, an announcement was made at the SNP conference that the Scottish Government is going to establish a national energy supply company. This has created uncertainty, a number of significant risks and potentially opportunities for the Council’s plans.

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| **Uncertainty** | **Key threats and opportunities** |
| What level of tariffs would be offered if the vision is to sell electricity and gas as ‘close to cost as possible’? | ***Threat:*** If the tariffs are lower than those modelled by the Council it could make it more challenging to secure customers.  |
| Are there any potential legal barriers that could prevent or slow the Government establishing this company by 2021 as announced, such as challenge from the Big 6? | ***Opportunity:*** The Council was planning to have obtained the licence and exited controlled market entry by the end of 2019, considerably earlier than Government plans. Could delivering this company through the Council be an easier implementation process? |
| Could local authorities be able to use this national supply licence to achieve energy related benefits in their areas? | ***Opportunity:***This could enable the Council to run projects such as the direct wire distribution of energy from generation schemes to domestic households and securing enhanced power purchase agreements for communities for the energy they generate. This could give the Council the ability to generate income without significant capital outlay associated with securing the licence.  |
| Where would any national company be located? | ***Opportunity:***Highland has many selling points to be the location of this company that could create many hundreds of jobs – one of the highest levels of fuel poverty in Scotland and the biggest percentage contributor of renewable energy of any local authority area. |

The project team and sponsor (Stuart Black) are attempting to gain answers to the questions above with a view to understanding what role, if any, Highland Council can play in assisting Scottish Government. In the days before the Redesign Board, two key meetings are planned:

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| **Date** | **Meeting participants** | **Purpose** |
| Monday 13th  | Catalyst project team, Scottish Government’s Energy Consultants & APSE Energy | To provide an overview of the work THC has completed on energy supply and to highlight the benefits that could be realised by working with a local authority. |
| Thursday 16th  | Stuart Black and the head of the Scottish Government Team tasked to establish the energy supply company. | To understand the strategic vision being developed by Scottish Government and to influence the early feasibility process so that a delivery model of implementation through a local authority is considered.  |

A verbal update on these meetings will be provided to Members at the meeting.

*Progression of other energy opportunities*

Whilst there are uncertainties regarding the progression of energy supply, the Catalyst project team are working to progress a number of other opportunities.

**Installing solar PV on the Council estate**

It is proposed that self-financial capital is made available to fund the installation of 2.5MW of solar PV capacity throughout the Council estate. The start-up capital of £2.3m covers the cost of 1nos Principal Project Manager on a 2 year temporary contract, development fees (SSE grid connection applications, planning and design consultancy) and the projected costs of the solar PV arrays.

Approximately 10 arrays, each 250KW in size would be installed out of a pool of 37 sites that have been identified as suitable by the Energy and Sustainability Team.

Once installed, these installations would generate net profit for the lifespan of the assets, estimated at 25 years. In year 1, net profit is projected to be £93k, having taken account of payments for maintenance, insurance and capital repayments.

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| **Start-up costs & timescales** | **Net profit to be achieved** | **Who will deliver the work?** |
| £2.3m with 2 year implementation period |  £93k in the first year once all arrays are operational, projected to be 20/21 | A Principal Project Manager recruited on a 2 year temporary contract into the Energy and Sustainability Team. |

The project team is currently working to secure the necessary member governance and financial provision to progress this opportunity.

**Reducing the energy consumption of Council service**

With an annual energy spend of £13.9m across the Council estate, steps can be taken to improve energy efficiency and behaviour with a view to reducing energy consumption.

The use of 17/18 Carbon Clever funding of £250k can be used to upgrade inefficient equipment, reduce consumption and achieve avoided costs associated with future energy spends. It is estimated that this funding could achieve £50k of avoided cost per annum.

From a behavioural perspective, working with staff who use high energy consuming equipment (such as heating systems) can reduce consumption by ensuring operating procedures are standardised and that plant runs at the most optimum level at all times. This work is estimated to be able to achieve avoided costs of £140k per annum. Complementing this, generic behavioural change amongst all staff on key issues such as energy usage, travel and the uptake of video conferencing has the potential to achieve avoided costs of £140k per annum.

It is projected that the efficiency work can be delivered before the end of the 17/18 financial year and that behavioural activities would take 2 years to realise the avoided costs.

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| **Start-up costs & timescales** | **Savings / avoided costs to be realised** | **Who will deliver the work?** |
| **Efficiency:** Use £250k Carbon Clever funding allocated for 17/18 by the end of the 17/18 financial year.  |  £50k to be realised from 18/19 financial year onwards. | * Energy & Sustainability Team
* Carbon Clever Team
* Project Delivery Unit within D&I
 |
| **Behaviour:** Use existing resources to drive behavioural change over a 2 year period.  | After 2 years of work it is estimated that £280k of savings / avoided costs will be realised, projected to be from 20/21. | * Energy & Sustainability Team
* Carbon Clever Team
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This work has already commenced with an initiation meeting having been held on Monday 13th November.

**Selecting a new void Council house energy supplier**

Agreement has been reached with the Housing Team to run a procurement exercise that will secure a new energy supplier for void Council houses, replacing the informal arrangement we have with SSE. This tender is seeking to secure stronger benefits, namely:

* **Financial:** Income for the Council for every void house that is switched to the preferred energy supplier and competitive tariffs for tenants that should lower their utility costs.
* **Social:** The preferred energy supplier will be asked to work with tenants to ensure they are always on the cheapest energy tariff, whilst providing transparent tariff pricing that tenants can understand.

Currently the Catalyst Team is working with the Commercial & Procurement Shared Service Team to understand if other Councils wish to be part of this tender. This is with a view to achieving higher levels of income by driving economies of scale. For Highland, market intelligence has indicated that an annual income of between £8 to £16k per annum could be achieved from our estimated 1,300 voids per year.

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| **Start-up costs & timescales** | **Net profit to be achieved** | **Who will deliver the work?** |
| Nil. Procurement to be undertaken November 2017 to February 2018, with a view to the new contractual arrangement going live in March 2018. | Estimated at between £8 -16k per annum. | The Corporate Improvement Team supported by Brian Cameron, Housing Policy & Investment Manager |

The tender document is completed and will be issued to prospective suppliers by w/e 17th November.