

6NOTICE TO PROCEED FOR ST IVES SMART ENERGY GRID

To: **Commercial and Investment Committee**

Meeting Date: **13 September 2019**

From: **Executive Director, Place and Economy**

Electoral division(s): **St Ives South and Needingworth**

Forward Plan ref: **N/a** *Key decision:* **No**

Purpose: **To update Members on progress with the St Ives Park and Ride smart energy grid.**

Recommendation: **The Committee is being asked to:**

- a) Note progress with the project**
- b) Delegate the final project decisions to the Chief Finance Officer in consultation with the Chairman of Commercial and Investment Committee, including the issuing of a 'Notice to Proceed' as set out in paragraph 2.5**

<i>Officer contact:</i>		<i>Member contacts:</i>	
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1. BACKGROUND

- 1.1 The Smart Energy Grid will combine solar panels installed on canopies over the car parking spaces, with battery storage to power the site after dark or when there is insufficient sunlight. The electricity generated will serve all the electricity demand of the site and all excess electricity will be sold to local industrial customers. Additional electric vehicle charging points will be added which will also be powered by the low-carbon electricity generated.
- 1.2 Other than briefing papers keeping Members informed of progress and risks, the project was last brought before the Commercial and Investment Committee in December 2017. At that meeting approval was granted for:
 - additional funding to bring the total investment to £3.6M;
 - Council match funding of 50%; and
 - delegated approval of the detailed negotiations to the Chief Finance Officer in consultation with the Chairman of Commercial and Investment Committee.
- 1.3 That paper also laid out conditions CCC were required to meet in order to secure European Regional Development Fund (ERDF) grant funding for the balance of required funding.
- 1.4 Separately, areas of work were agreed in the construction contract between Bouygues and CCC as pre-conditions before work could commence on site (called the 'Notice to Proceed'). These were negotiated in recognition that there was likely to be a gap between signing the contract and when work could commence on-site while the full application for grant funding was being assessed.
- 1.5 An update on each of these conditions is included below.

2. MAIN ISSUES

- 2.1 **The ERDF grant and funding agreement is a condition before construction work can commence.** To secure the grant, the funding application has been evaluated and key compliance issues approved.
 - The Minister of Housing, Communities and Local Government (MHCLG) has approved the Council's procurement of Bouygues Energies & Services after an extensive review of both the top-level Official Journal of the European Union procurement conducted by the Greater London Authority and the Council's mini-competition.
 - A 'No State Aid' position has been agreed with MHCLG in December 2018. This confirms that the Council is eligible for 50% match funding of eligible costs once in a Funding Agreement. Costs became eligible from April 2017.
 - Discharging pre-construction planning conditions. Planning approval was granted in July 2017. All pre-construction planning conditions have been discharged.
 - MHCLG identified that securing the land title is the last condition prior to offering the funding agreement and the Council will need to file a Deed of Covenant on the title under the terms of the grant. The land title is nearly secured. LGSS Law must now finalise the Transfer, apply to pay for stamp duty and apply to register the Transfer with the Land Registry. Given the involvement of third parties, its difficult to set a

timeframe for this to be completed but once in place, we expect MHCLG will offer the Funding Agreement.

- 2.2 **Finalising project costs.** As the quotes making up the Investment Grade Proposal expire after 90 days, the project components were put out to tender again in June and July 2019. Tenders have been returned for the majority of the project. For three of the major components, solar modules, battery energy storage and the carports, costs for are wither below or within the original budget. However, as much of the equipment will be imported there is significant cost uncertainty should the UK exit the European Union without a deal on 31st October 2019 despite these tender quotes. The cost to connect to the grid is also unknown until UK Power Networks respond to an application to connect but this is not anticipated to be a high cost. The grid connection application process is underway. However, the site will soon be included in UKPN's flexible distributed generation area, indicating there is a mechanism to connect to the grid subject to some curtailment.
- 2.3 **Power Purchase Agreements.** The business case for the project is predicated on selling energy to local businesses. Discussions have been ongoing with the two potential customers and one has indicated their willingness to negotiate a Power Purchase Agreement (PPA). Whilst these negotiations are still in progress, there is risk granting Bouygues the Notice to Proceed with on-site works.
- 2.4 Amongst these pre-conditions, securing a PPA with a customer and obtaining approval for a grid connection pose the greatest risks. Table 1 below identifies the risks and mitigation strategies.

Table 1. Project Risks and Mitigation Strategies

Risks	Mitigation Strategy
We're unable to negotiate satisfactory PPAs with customers.	The business case is revised to examine the expansion of electric vehicle chargers on-site as a means of replacing revenue from the PPA customer.
The revised Investment Grade Proposal exceeds the approved costs and/or the investment parameters.	Appropriate scrutiny will be applied to the business case inputs to confirm that costs are appropriate. Should the cost or investment parameters be exceeded but the project is still sound, a paper will be brought forward to Committee for direction.
Exiting the EU with a No deal Brexit is a risk to the project costs. The risks include exchange rate losses and tariffs on goods.	We can assume that the tenders being supplied now for major imported materials will have priced in the risk of changes to exchange rates. It's conceivable that should the UK exit the EU without a deal, that tariffs could be removed from imported goods, however tariffs could also increase. If these assumptions are incorrect the mitigation strategy will be the same as for the above risk of the IGP exceeding approved costs or investment parameters.
Delays in negotiating either the PPA or the Funding Agreement, or securing the land	Registering the land title is the major challenge to signing a Funding Agreement.

title result in the quotes forming the business case to expire, resulting in another round of tendering, further delaying the project.	This issue is being managed at Executive Director level. The intent of one PPA customer to negotiate is positive.
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2.5 While there are still some items to finalise listed below, on-site works will have to commence quickly in order to keep to deadlines for construction within the grant timelines. Bouygues will therefore require a Notice to Proceed. On this basis, delegation of the final decisions on the project to the Chief Finance Officer in consultation with the Chair of Commercial and Investment Committee is sought, on the basis that the following conditions are met:

- A signed Funding Agreement with MHCLG;
- PPA commitments from a customer or customer(s) are secured, although final negotiations on contractual terms are still underway; and
- the Chair and CFO agree the revised IGP is acceptably aligned with the payback period and IRR agreed at Committee in 2017.

3. ALIGNMENT WITH CORPORATE PRIORITIES

3.1 A good quality of life for everyone

The project will provide clean renewable energy to power the Park and Ride site's usage, and local customers either directly or via electric vehicle charging, thereby reducing the Council's and Cambridgeshire's carbon footprint and mitigating climate change.

3.2 Thriving places for people to live

As part of the project, a Business Support Programme will be delivered to share the lessons learned in developing and designing a Smart Energy scheme. Twelve hours of business support for a minimum of 40 companies will be delivered and this is costed as part of the overall business case. The expectation is that the support will reduce barriers for other companies to develop complex energy projects like this one.

3.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource Implications

The ERDF grant will cover almost 50% of the overall scheme funding of £3,624,907. The Council will fund the remaining half of the project funding with borrowing through a PWLB loan. Staff and project development costs will be reimbursed from the grant. Costs for developing the grant application and all associated conditions are not eligible for reimbursement under the grant. These costs will be recovered by revenue generated by the project once operational. Therefore the Council contribution towards the project will be somewhat higher than from ERDF.

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

Bouygues Energies & Services were originally procured under a mini-competition run under the Refit 2 Framework. CCC and Bouygues entered into a construction contract in November 2016 prior to its expiration. That contract will be varied to reflect changes since it was agreed and prior to works commencing. Those negotiations started in April 2019 and can only be finalised once the IGP is agreed.

4.3 Statutory, Legal and Risk Implications

Please see Table 1. There are no statutory or legal risks.

4.4 Equality and Diversity Implications

There are no significant implications within this category.

4.5 Engagement and Communications Implications

Local Members, the St Ives Town Council, commuters, the Park and Ride team and St Ives in Bloom (a voluntary gardening group that plant at the park and ride) have been notified as to the status of the project. An article on the recent status will be published in the Town Council publication *The Bridge* in September, and has been posted online at various corporate sites and local newspapers. Communication with the public and local Members will increase once a Funding Agreement is offered.

4.6 Localism and Local Member Involvement

See paragraph 4.5 above.

4.7 Public Health Implications

There are no significant implications within this category. To the extent the project offsets fossil fuel powered electricity generation or petrol fuel for vehicles, there would be a small improvement in public health.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Sarah Heywood
Have the procurement/contractual/Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Yes Name of Officer: Gus DeSilva
Has the impact on statutory, legal and risk implications been cleared by LGSS Law?	Yes Name of Legal Officer: Debbie Carter-Hughes
Have the equality and diversity	Yes

implications been cleared by your Service Contact?	Name of Officer: Elsa Evans
Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Joanna Shilton
Have any localism and Local Member involvement issues been cleared by your Service Contact?	Yes Name of Officer: Emma Fitch
Have any Public Health implications been cleared by Public Health	Yes Name of Officer: Iain Green

Source Documents	Location
<ol style="list-style-type: none"> 1. Smart Energy Grid Demonstrator Project, St Ives Park and Ride – Outline Business Case, paper to 16 September 2016 Assets and Investment Committee 2. Smart Energy Grid – Update on European Regional Development Funding and Risks, paper to 15 September 2017 Commercial and Investment Committee 3. Smart Energy Grid – Business Case and European Regional Development Fund Update, paper to 15 December 2017 Commercial and Investment Committee 4. Progress and Risk Update for St Ives Smart Energy Grid project Member briefing note, June 2018 5. Progress and Risk Update for the St Ives Smart Energy Grid project, 13 December 2018 	<ol style="list-style-type: none"> 1. https://tinyurl.com/yxaytd88 2. https://tinyurl.com/y3d25zgw 3. https://tinyurl.com/yyc46odl 4. Available upon request 5. Available upon request