

**Report of:** Head of City Development

**To:** City Executive Board

**Date:** 23<sup>rd</sup> July 2008 **Item No:**

**Title of Report:** West End District Heating Procurement

### Summary and Recommendations

**Purpose of Report:** For City Executive Board to grant project approval for the West End District Heating Project, and to authorise the work necessary to take forward the procurement of an ESCo.

**Key Decision:** No

**Executive Lead Member:** Cllr Colin Cook

**Report Approved by:**

**Director:** Melbourne Barrett

**Finance:** Financial Management (Christopher Kaye)

**Legal:** Legal and Democratic Services (Jeremy Thomas)

**Policy Framework:** The procurement of a District Heating system for the West End builds on policies set out in the adopted Oxford Local Plan 2001-2016 and the adopted West End Area Action Plan. This project seeks to provide a low carbon energy system for the West End of Oxford. This will improve Oxford's environment, economy and quality of life in line with the Oxford City Council's vision. This project will in particular make a contribution to tackling the impacts of climate change in line with the Corporate Plan.

#### **Recommendations:**

That the City Executive Board agrees to:

1. Grant Project Approval for this project;
2. Authorise officers to move the project forward to its next phase;
3. Waive the competitive selection requirements in the Contract Rules in regard to the appointment of an external consultant for the further work required and instead authorise the continued appointment of Ove Arup;
4. Appoint an independent project manager to assist with the procurement.

## Summary

1. The purpose of this report is to inform the City Executive Board how far the District Heating project has moved forward and for the City Executive Board to agree that the project should move forward as proposed. The West End District Heating Project is identified as a key project in the adopted West End Area Action Plan. It is supported by policies in the adopted Oxford Local Plan. The District Heating Project in the West End is identified as a key project in the Climate Change Action Plan.

## How the initial stages of the project have been progressed

2. The West End District Heating Project began when background research and evidence was required to support a policy in the West End Area Action Plan. The aim was to investigate the feasibility of producing a low-carbon sustainability exemplar project for the West End.
3. A three-stage study (now completed) was commissioned to provide this evidence. The consultants that were chosen to undertake the three-stage study on behalf of the City Council were selected via a tender process. A number of firms of consultants were invited to submit a bid for these three stages of work. From a number of bids that were submitted Ove Arup were selected through an interview selection process to carry out the three stages of work.
4. The principal elements of the study are were as follows:
  - **Stage 1:** an assessment of the available scheme types (including benefits and disbenefits, practicality and viability) with case studies
  - **Stage 2:** an assessment of the demand for energy in the West End development based on the provisional mix of the quantum of development to be provided; and recommendations of the two or three options for schemes considered most appropriate for the West End
  - **Stage 3:** Detailed economic and technical appraisal of one of the options that was selected previously.
5. This study has now been completed. The study was positive and the results showed that it was both financially and technically feasible to undertake a District Heating Scheme in the West End of Oxford.
6. The study concluded that a District Heating solution in the West End of Oxford that utilised the biomass boiler, which is part of the Westgate Development, and a separate plant to be constructed on the Oxpens Site should be linked together to provide combined heat and power to the Oxpens Site, and heat to the other developments.

7. The technical and economic assessment found that the gains in carbon saving went beyond that of the requirements of the Natural Resource Impact Analysis (NRIA) Supplementary Planning Document (SPD), which currently requires 20% of energy generated from new development to come from renewable resources.
8. Had the results from the technical and economic assessment proved to be unsuccessful, the project would have ended.

### **What remains to be done?**

9. The next phase of the project involves the procurement of an Energy Services Company, (ESCo) to administer and manage the District Heating project in the West End of Oxford.
10. An important requirement in this next stage of this project is the development of a Memorandum of Understanding to tie in the three main parties (Oxford City Council, Capital Shopping Centres and Oxford and Cherwell Valley College). The Memorandum of Understanding will set out how the three main parties will interact as the project moves forward.

### **Timescale**

11. The next phase of work is likely to take 18 months from start to finish. At the end of the work an ESCo will have been selected, and work will be able to begin in relation to the construction of the project.
12. A project timetable has also been included as Appendix 1. Prior to the Selection of the Preferred ESCo bidder, further City Executive Board Major Project Approval will be required to move forward with the District Heating Project. A report will be circulated at the appropriate time for the City Executive Board to consider.
13. The scheme needs to tie in with the key sites in the West End renaissance. To date positive discussions have taken place with the Westgate and Oxford and Cherwell Valley College. If the District Heating project is delayed, and an opportunity missed to tie in to Westgate, this would seriously affect the feasibility of the scheme. It is anticipated that 'power on' from the Westgate biomass boiler would be in advance of the Oxford and Cherwell Valley College redevelopment.

### **Financial Implications**

14. Up to this point, the three stage study documented at para.3 (above) has cost **£46,757.50**. Planning Policy paid for stages 1&2. This cost £21K. The West End Partnership paid for the third stage. This cost just over £25K.

15. The next stage of the project is likely to cost a maximum of **£80K**. This figure is broken down as follows:

- Arup to lead on tender process for an ESCo: **£33,920.00** (originally quoted at £39,850.00 but quote was negotiated down to the figure in bold).
- An additional figure of up to **£11.345.00** has been included in the brief for a range of activities including establishment of the Memorandum of Understanding, and other meetings where consultants are required to be present to assist proceedings.
- An experienced project manager would also be required for the project. It is envisaged that this would be a separate appointment at a cost of up to **£33,000**

16. The total amount for the next stage of the project would therefore be **£78,265.00**

17. The City Council is co-ordinating this project, since it is the planning authority, a landowner in the West End, and a member of the West End Partnership. Since the District Heating project is a West End Project, actual funding would come through the West End Partnership (funded mainly from New Growth Point 2 funding). It is because the City Council is the commissioning authority/ procurement body that we need to seek project approval for the project. The project will take 18 months. As such it will be funded in the financial years 08/09 and 09/10.

18. In terms of staffing, a project team has been set up consisting of a range of interests including, legal, estates, the West End Partnership, procurement and planning policy. It is envisaged that planning policy will continue to maintain the relationship with the consultants that has built up since the start of the project. The West End Partnership will cover the staffing time associated with this project in Planning Policy.

### Risks associated with the project

19. The following table shows the potential risks associated with the project:

Risk	Description	Impact (High/Medium/Low)	Counter Measures
Commercial Attractiveness to 3 <sup>rd</sup> Party (ESCo)	Low commercial attractiveness to 3 <sup>rd</sup> Party (ESCo) may jeopardise competitiveness of Energy Services procurement process	Medium, but once Memorandum of Understanding (MOU) is in place, potential impact will be reduced.	Set up Memorandum of Understanding from prospective clients in order to ensure certainty of predicted demand growth

Timescale Delays	Project programme could be adversely affected by the timescale for the Energy Services procurement process	Medium. Potential impact likely to be reduced once phase 4 project brief agreed.	Ongoing discussions with key stakeholders will ensure that any timescale delays are addressed at the earliest opportunity
3 <sup>rd</sup> Party (ESCo) related: Locational	Potential future risk involved with an expanded network/ need for future energy centres	Low	Ensure that sufficient capacity is provided at existing energy centres to serve expanded scheme.
3 <sup>rd</sup> Party (ESCo) related: Responsibility	3 <sup>rd</sup> Party (ESCo) may not want responsibility for specialist renewable energy technology fuel supply, guarantee of operation or maintenance.	Medium/ Low	Ensure that Memorandum of Understanding is completed and adds sufficient weight that 3 <sup>rd</sup> Party will take responsibility for 100% of project
3 <sup>rd</sup> Party (Westgate/OCVC) related:	Westgate Development/OCVC do not come forward as a result of credit crunch	Medium/ High	Should the partners drop out of the scheme, a reduced scheme could still be implemented on the Oxpens site, with the option to include key partners at a later date by providing necessary infrastructure connections.

### **Project approval**

20. Since this is procurement, Project Approval will be required at this stage of the project.

### **Appointment of External Consultants**

21. As previously discussed (paragraphs 2-7), consultants were appointed through a tender process to the project value of £46K.

22. The next stage of the project (as outlined in paragraphs 9-10 above) would need consultant expertise to ensure that it is carried out properly. Oxford City Council has no current expertise in this particular area – it is not something that the City Council has ever undertaken

before. As such we would be relying on the consultants to lead the City Council forward.

23. Ove Arup were originally selected because they had an excellent track record in undertaking District Heating schemes from start to finish. Arup have an understanding of the project, since they designed it and have made contacts throughout the process with the key stakeholders, i.e., Capital Shopping Centres, Oxford and Cherwell Valley College and others.
24. As well as the practical considerations there are also time constraints and financial implications of putting out to tender at this stage. It adds a high level of risk to the overall success of the project.
25. A good working relationship has been built with the consultants – Ove Arup. If a competitive selection process for consultants were to take place, and new consultants were selected, the working relationship would have to begin again from scratch. The consultants have made contacts with key stakeholders and maintain a good working relationship with them.
26. The timing of the project is very important. Given the next phase is likely to last around 18 months. The competitive tender process would add undue time constraints onto the project which could be a risk to its overall success.
27. Arup have a proven track record for the delivery of District Heating Schemes. They have previously been involved numerous schemes including the very successful Yorkshire Forward District Heating Scheme. The Yorkshire Forward scheme has many parallels to the proposed Oxford West End District Heating Scheme.
28. With the above in mind, one of the recommendations of this report is for the City Executive Board to waive the contract requirements and to agree to the continued appointment of Ove Arup.
29. The Arup Report also suggests the appointment of a separate project manager to undertake some of the day-to-day project management. We would therefore propose to do this as part of the next phase.

### **Climate Change Impacts**

30. This project will ultimately have a very positive effect with regard to climate change. It will reduce the amount of carbon dioxide needed to provide heat and power to a range of developments within the West End.
31. It has always been considered that the West End should be seen as an exemplar project with regard to Climate Change. The District Heating Project is the way to deliver this exemplar status.

32. The West End District Heating Project would provide heat and power to the Oxpens site, as well as a number of other sites within the West End. The Oxpens site is to house the new Joint City and County Offices, and as such would reduce the City Council's, own carbon footprint.

33. The Climate Change Forum has been positively involved in the District Heating Project from the project's inception. Reference is included to the District Heating Project in the Climate Change Action Plan.

**Equality Impacts:**

34. There are unlikely to be any equality impacts with regard to this project. The project will be for all the residents within the West End who are able to take advantage of it.

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**Appendices:**

Appendix 1: Programme Timetable documenting stages and months  
Appendix 2: Background Paper on Sustainable Energy

**Background Papers:** None

**Further Information: Technical Studies - Online**

NB. Ove Arup have produced a detailed Technical Report to document the work done to date. This report is available on the City Council website at the following url: [www.oxford.gov.uk/planning/west-end-aap.cfm](http://www.oxford.gov.uk/planning/west-end-aap.cfm)