Peterborough Integrated Renewables Infrastructure

DELIVERY AND COMMERCIALISATION OPTIONS APPRAISAL – EXECUTIVE SUMMARY ONLY

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Executive summary to full report

This options appraisal seeks to present the procurement options and commercialisation pathways available to Peterborough City Council (PCC) in the delivery of its ground breaking infrastructure project, Peterborough Integrated Renewables Infrastructure (PIRI).

The assessment is based on discussions with the council to understand the key success factors, engagement with the supply chain via a soft market testing exercise and Joule Infrastructure's experience of delivering similar projects in the United Kingdom.

Soft market testing

A Soft Market Test for delivery of the project was held in the summer of 2023 and 9 responses were received from firms operating in this area which all expressed a strong interest in pursuing delivery options for Council.

It was noted responses were received from companies operating across the range of delivery routes available to the Council as noted above. These companies included international infrastructure investment funds who typically own and operate large scale public infrastructure, well known UK energy companies and private companies specialising in delivery and operation of decentralised energy infrastructure such as PIRI.

This positive response from the market indicates good support for the project principles and none discounted the opportunity for a partnership with PCC whilst some noted a preference for other commercialisation pathways more suited to their business model.

Procurement models

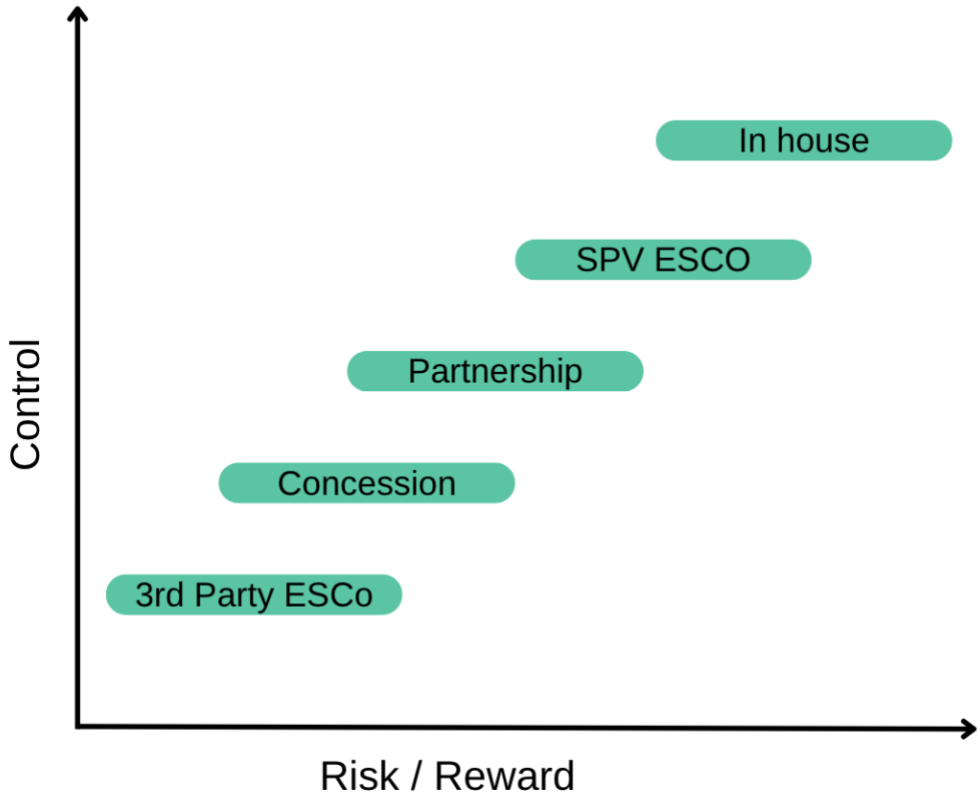
The typical procurements models are Traditional Procurement which best suits a simpler infrastructure project with clearly defined deliverables. The opposite to this is a Development Partner which is helpful in a situation where the council has not developed the project and would require the partner to develop the project in full. In evaluating the procurement models most appropriate to PIRI, it is important to understand and acknowledge the significant work already undertaken by the council to get to the current stage, being approved for a significant grant funding based upon a Treasury aligned 5 Cases Model Outline Business Case, Detailed Project Development (DPD) and Techno-Economic Feasibility (TEF) study. With this in hand, PCC are empowered to procure a supply chain partner with more control and stake over the project – PCC need not approach the market for all the answers. PCC does however need to procure an enabling partner to help develop the project up to Full Business Case and hence a Hybrid Procurement model may best suit PIRI.

Commercialisation pathways

This report also presents the most commonly used commercialisation pathways available for such infrastructure projects, these are;

- **3rd party ESCO** - divesting the entire project, risk and returns to a 3rd party Energy Service Company (ESCO)
- **Concession** – providing a 3rd party ESCO a concession over the infrastructure for 25 to 40 years thereafter it returns to the council.
- **Partnership** – (also referred to as a Joint Venture) a commercial arrangement where PCC and 3rd party share the risk and rewards.
- **Project sponsor ESCO** – PCC sets up its own ESCO through establishing a wholly owned subsidiary and procures delivery service (or DBOM) contracts for operation, maintenance, metering and billing.
- **Inhouse delivery** – the council remains fully responsible for the infrastructure using in house resource

The options available to PCC all providing a sliding scale of risk and reward for PCC. The more risk PCC takes the more reward it can potentially receive; however as with any investment this would also expose PCC to potential losses as well.



In House delivery or delivery via a wholly owned Council company (ESCO) / SPV

The Council will remain fully responsible for delivering the entire project, from generation, distribution, supply and funding the infrastructure construction. This structure will give the Council complete control over the project and will enable it to receive the full returns generated but will also expose it to the full risks of the project, albeit these can be mitigated to a degree if delivery is via a wholly owned company.

A grant has been approved from GHNF for £13.5m on this basis, and the Council will be required to borrow the remaining estimated requirement of £39.5m required to complete the construction.

The Council does not have the in-house expertise to deliver the project and will be required to recruit internal resources to provide the expertise required and to let contracts to third party providers to fulfil the specialist delivery systems needed.

Private sector concession arrangement

This route to delivery will require the Council to procure a third party to deliver the whole project. The Council will not be required to provide any additional funding as this will be provided by the third party as part of the arrangement. Under a typical concession arrangement, the Council will not receive any returns and any control it will be able to exercise will be determined when the concession is agreed, which typically is minimal. A concession arrangement is typically in place for a period of 25 to 40 years after which it returns to the Council.

Partnership

The Council will be required to procure a private sector partner to provide investment, delivery and supply expertise employing a partnership delivery vehicle through which the Council will be able to maintain a degree of control. The structure of partnership vehicles can vary, but typically both parties provide investment and share control of the entity.

Councils are generally unable to provide direct investment into the project and hence are limited to receive 'special voting rights' to maintain some degree of control. PIRI is unique in that the Council owns the energy generation asset and has obtained £13.5m of grant funding – valued together this can contribute substantively to the Council's "investment" in the scheme which we would expect to enable the council to obtaining a proportion of normal shares and thus a greater share of the voting rights of the entity than otherwise would have been possible.

With a partnership arrangement, the Council will not be required to provide all of the gap funding required for the project and will retain a degree of control. The risks will be shared with the partner best suited to manage those risks.

Another consideration of partnership agreements with councils typically lies in further calls for capital investment as the project is required to grow and expand. Given PCC would not want to be obliged to continue maintaining its share of capital investment, it would be prudent for the council to ensure structured buy and sell out mechanisms are agreed in the partnership agreement at each call for investment.

Integrated or individual heat, power and mobility delivery options?

A final consideration in the delivery and commercialisation options relates to the unique nature of PIRI in that it offers three service streams, namely heat, power and mobility. The SMT responses indicated the varied opinions on the question of whether to deliver the scheme as an integrated solution or separate them into individual delivery and commercialisation activities.

Item	HN	PWN	EV
CAPEX (£m)	44.9	12.6	1.0
EBIT (£m)	38.8	178.6	16.4
NPV @ 3.5% (£m)	-15.0	145.3	13.9
IRR (Pre-Tax, Real)	-1.6%	83%	27%

Table 1 Financial assessments for each service / vector[1]

From Table 1 it is clear the heat network is marginal in terms of IRR and financial performance, whereas the mobility and electricity services have the opportunity to be very financially attractive. Some of the SMT respondents pointed to a protracted and complex procurement process if PIRI were to be marketed as an integrated offer. Whilst this may be true, it is our belief that if the services were to be procured individually, PCC would be left with the marginal heat network without any interest in it from the wider market.

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[1] Taken from WP5 Business Model & Impact Assessment compiled by SSE dated 20.09.22