

FALKIRK COUNCIL

**Subject: FALKIRK/GRANGEMOUTH ENERGY PROJECT:
INTRODUCTORY REPORT**
Meeting: EXECUTIVE
Date: 13 JANUARY 2015
Author: DIRECTOR OF DEVELOPMENT SERVICES

1.0 INTRODUCTION

1.1 The purpose of this report is:

- update Members on the progress of an energy related project arising from recent work involving the Council, Scottish Government, Scottish Enterprise and businesses in the Grangemouth area and
- to outline the options for a Falkirk Council-led Energy Services Company (ESCo) which could deliver a range of energy related services to commercial, industrial and residential premises in Grangemouth and Falkirk.

1.2 Following the disruption at INEOS in October 2013, consultation with businesses and local stakeholders, including two ministerial meetings held at Falkirk Stadium, pointed towards high energy costs as a common concern for firms operating in the area. The issue was identified as hindering investment, employment and the long-term viability of some business operations.

1.3 Subsequent discussions have taken place on this issue involving stakeholders and these have highlighted the potential development of an energy related project, utilising renewable technologies which could deliver substantial energy costs savings to the Grangemouth industrial complex and potential benefits for the wider area through development of a district heating scheme and formation of an energy service company (ESCo). Through contact with national bodies, interest from a Chinese investor, Chinaway Energy Ltd, was also identified and the Council, Scottish Enterprise and Chinaway Energy have agreed to investigate this proposal in more depth.

1.4 It has become apparent that the energy project could take a broader focus and might, subject to future feasibility work, have the potential to extend to support low cost energy opportunities to other premises and offer opportunities to reduce the area's carbon footprint through the use of renewable energy sources.

1.5 This report summarises the current position, the work so far, the opportunities and implications for the Council in establishing this type of initiative and next steps required to do so.

2.0 BACKGROUND

- 2.1 Due to the number of businesses in Falkirk and particularly Grangemouth whose operations require large energy inputs, rising energy prices have placed a significant burden on business operations.
- 2.2 This issue has been frequently raised through Falkirk Business Panel events and formed a significant element of discussion during a March 2014 visit by UK and Scottish Government Ministers to the area. The recent formation of the Falkirk Economic Partnership involving the Council, Scottish Government, Scottish Enterprise and business has reinforced the strategic importance of Grangemouth to the national economy and has sought to address this issue, initiating a project group to support development of the area.
- 2.3 The project partners have explored options to reduce energy costs for Grangemouth businesses, addressing six stated aims:
- enhance the competitiveness of businesses located at the site
 - secure continued employment
 - create new jobs
 - improve energy security
 - improve environmental protection
 - enhance the area's international reputation
- 2.4 This work has identified the potential to reduce costs and deliver energy efficiency through the implementation of a number of potential projects including renewable energy, waste-to-energy, district heating and co-generation. This would aim to build upon the development of new power generating capacity, established to support industry in Grangemouth with a network put in place to distribute heat and power to users across the area. It has highlighted that the Council might play an important role in the delivery of the proposed projects. In particular the potential for the Council to establish an ESCo, to engage with a variety of interests and help deliver projects has been suggested.

3.0 HOW A FALKIRK ESCo COULD WORK

- 3.1 A number of renewable energy related projects exist across Europe with individual elements that a Falkirk ESCo could use as a template. The purpose of the company would be to facilitate the delivery of a number of energy efficiency, low carbon and renewable energy projects in Falkirk and Grangemouth. In particular it is anticipated that new energy generation facilities are likely to come forward (e.g. the recently consented biomass scheme at Grangemouth Port) and that connecting infrastructure to supply heat and power to businesses and properties in the vicinity of these plants might be provided. The ESCO would be designed to earn a return on its infrastructure through a utility usage charge.

- 3.2 Establishment of an ESCO offers the opportunity to have an effective delivery mechanism which coordinates a number of significant energy efficiency projects at a strategic level. In this way more efficient projects are created and cost sharing and income generating opportunities are optimised. ESCOs are being developed by several Councils across the UK with an active ESCo in Aberdeen and developments taking place in Glasgow and Edinburgh. ESCOs offer potential to attract external funds in their development including Scottish Government, EU and private sector funds.
- 3.3 There are three suggested structures for the ESCo:
- i) Find a private sector operator to run the project with public sector infrastructure support.
 - ii) Form a public/private partnership to operate the ESCo
 - iii) Form a Falkirk Council controlled ESCo with each individual project constituted as a separate entity below the overall ESCo.
- 3.4 Each of these options requires to be examined for the Council to consider how it might help to deliver energy cost reductions whilst retaining the autonomy to institute projects which might also help address fuel poverty, meet carbon reduction targets, and consider the implementation of district heating schemes for residential and Council properties.

ESCO Business Case

- 3.5 It is proposed that work be initiated to examine the options available and develop a business case for the energy project and potential development of an ESCo covering:
- Background and rationale for the project
 - Survey of existing and projected energy use
 - Investigation of alternative options including details on payback period for each project option
 - Details of required capital expenditure and financing options.
 - Impacts – exploration of anticipated local and national economic impacts
 - Risk management plan addressing key risks to delivery

Scottish Enterprise plan to commission this business case on a phased basis and seek the assistance of the Council in progressing this work, in particular to assist with the development of the ESCo. This work will involve Scottish Government, Scottish Futures Trust and businesses from the Grangemouth area.

4.0 WHAT COULD A FALKIRK ENERGY PROJECT AND ESCO DELIVER?

- 4.1 It is anticipated that a district heating network for Grangemouth might deliver heat to businesses at a reduced price (up to 50% reductions may be possible). This may involve the already consented biomass plant on the port site and other energy generating capacity in Grangemouth. An initial phase for this work could cover the area between the foreshore and the M9. However it is proposed to examine additional phases which could supply heat to the Falkirk Gateway sites, the Helix, Falkirk Stadium and to the new Forth Valley College. This may offer additional benefits in the delivery of the Falkirk TIF initiative.

- 4.2 Reductions in carbon emissions from using the scheme would allow businesses and public sector bodies to fully or partially achieve carbon reduction targets immediately.
- 4.3 Electricity generated could be fed directly back to the national grid, generating a revenue stream to fund the development of socially targeted energy projects focused on reducing fuel poverty, increasing sustainability and reducing carbon emissions.
- 4.4 There is potential to assist delivery of related carbon reduction measures e.g. the roll out of LED lighting across the Council area which will substantially reduce energy use and therefore cost and emissions – projects would require to demonstrate that they can viably cover installation costs from savings within a short timeframe.
- 4.5 Income streams from electricity generation/sales of heat/reductions in energy use, over and above those reinvested in other projects might also be returned to the Council.

5.0 IMPLICATIONS

Policy

- 5.1 The examination of a potential energy project accords with the ambitions of the Strategic Community Plan, the Sustainable Development & Climate Change Strategy 2012 – 2017 and My Future's in Falkirk.

Legal

- 5.2 The advice of Legal Services and, where necessary any external legal advisors will be sought in the development of the proposal.

Financial

- 5.3 The advice of Finance Services will be sought in the development of the project. External advice has been sought initially via Ernst & Young, the Council's advisors for the TIF initiative. The proposed Business Case will be commissioned by Scottish Enterprise at an anticipated cost of c£125,000, with the Council requested to contribute up to £25,000 of these costs. If agreed, it is proposed to meet these costs from existing Development Services revenue budgets.

Risk

- 5.4 Inevitably a project of this type involves a level of risk and it is important that these risks are clearly understood and appropriate mitigation put in place. The business case is intended to identify and measure each risk and provide plans for mitigation where appropriate, e.g.:
 - Lack of funding (public or private sector) available to carry out delivery of projects
 - Balance of control versus risk within each individual project area.
 - Potential partners unwilling to engage with the ESCo
 - Wholesale or competing energy costs falling to levels which challenge the ESCo viability.

6.0 NEXT STEPS

- 6.1 Falkirk's national economic significance is acknowledged by the UK and Scottish Government and they are working closely with Scottish Enterprise, Scottish Futures Trust, Falkirk Council and local business interests to address strategic issues in the Grangemouth complex. There is strong support for the development of the area's economy, evidenced by degree of involvement in and support for discussions held so far and a concern to address energy costs for business. It is hoped that this support can be translated into the delivery of an energy related project which helps address important issues such as energy costs, carbon emissions reductions, fuel poverty and energy security whilst making a positive budgetary contribution.
- 6.2 Scottish Enterprise has offered to lead in the development of the business case for the energy project and has identified that the Council's role in the development of the project, particularly the potential for formation of an ESCo, is key. The Executive is asked to support the development of this project including the Council's involvement in delivery of a business case

7.0 RECOMMENDATIONS

7.1 It is recommended that the Committee:-

- (i) Notes the above report on the development of an energy project for Falkirk and Grangemouth and the possible formation of a Falkirk ESCo to support the energy needs of the area.**
- (ii) Agrees to contribute towards the development of a detailed business case with stakeholders, making a contribution of up to £25,000 towards this work; and**
- (iii) Requests officers to report back in due course, recommending the next steps.**

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Director of Development Services

Date: 24th December 2014

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LIST OF BACKGROUND PAPERS

1. ESCo feasibility report

Any person wishing to inspect the background papers listed above should contact Matthew Farrell on 01324 500988.