

**Title of report:** Heat Network Project Update  
**Meeting date:** 24 May 2023  
**Report to:** Development, Investment, and Sustainability Committee  
**Report of:** Philippa Illingworth, Head of Infrastructure

**For Decision**

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**This report will be considered in public**

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**1. Summary**

- 1.1 This paper provides an update on the key activities for the pre-commercialisation phase of the Heat Network Project following approval from the committee in February 2023 to spend an additional £150,000 on critical path activities.
- 1.2 OPDC successfully bid for further GLA LEA funding to support the critical path activities and were successful in securing £80,650 in funding.
- 1.3 Key activities in the pre-commercialisation phase included: developing the Procurement Strategy, obtaining legal advice to supporting this, progressing discussions to secure agreements on heat supply from the data centres, and working HS2 to coordinate network pipe route proving.
- 1.4 We understand the Department for Energy Security and Net Zero (DESNZ) decision over OPDC's submission to the Green Heat Network Fund (GHNF has been delayed by DESNZ by four weeks. OPDC now expect to be informed of the outcome mid-June however, additional support from the GLA will allow us to maintain progress on the pre-commercialisation activities.
- 1.5 Procurement of a Commercialisation team for the next stage of work is underway, with returns due Monday 15<sup>th</sup> May. Tender award and signing of the contract will not be made until after the outcome of the GHNF funding mid-June.
- 1.6 The project team has commenced all discussions with external stakeholders as planned and the delay to the GHNF outcome has not impacted these workstreams.

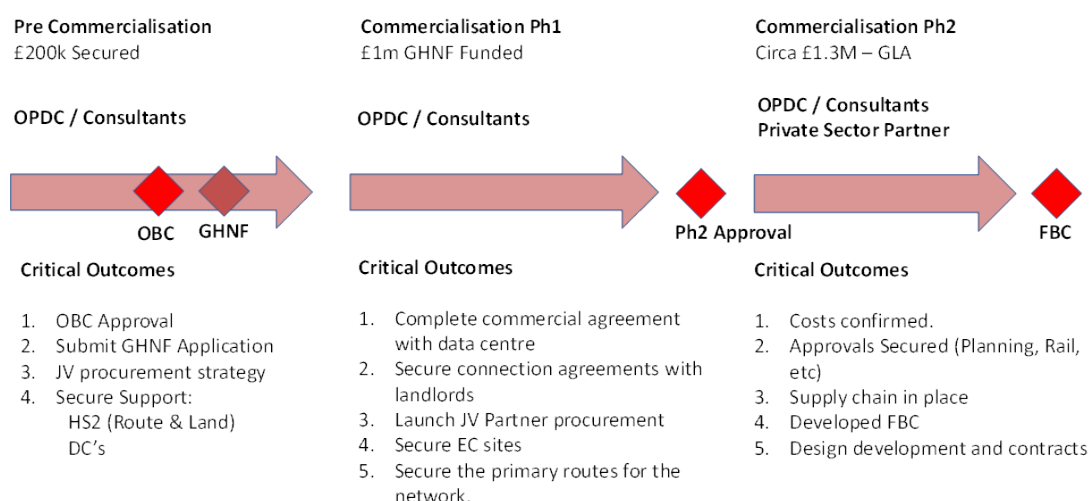
## 2. Recommendations

**The Committee is invited to:**

- 2.1 **Note** the progress made within the pre-commercialisation phase against previously report key activities and risks.

## 3. Background

- 3.1 In September 2022 the OPDC Board granted approval of the commencement of an outline business case (OBC) for a heat network in Old Oak and Park Royal. The OBC would become the basis for an application to the DESNZ for its GHNF.
- 3.2 At its meeting in November 2022, the board delegated approval to the Development, Investment and Sustainability Committee (DISCo) to approve any application the DESNZ for funding support.
- 3.3 In February 2023 DISCo approved OPDC's application to DESNZ, the diagram below was included in the paper that sought the approval and shows the phases of commercialisation and the key activities to be undertaken.



- 3.4 In March 2023, OPDC's Board gave delegated authority to the Chief Executive Officer to enter into agreements with both DESNZ and the GLA (if successful) and authorise expenditure of funds received. No further authority is required at this stage and this should allow OPDC to carry out the commercialisation phase of the project, with any draw-down of capital funding subject to further approval from both DESNZ and OPDC's Board.
- 3.5 OPDC will require decisions from Board / DISCo (subject to delegations) at milestones during the phases of work shown above. The table below summarises when decisions are expected to be brought to governance.

Milestone	Timetable
Approval to enter into funding agreements with DESNZ and the GLA for the commercialisation phase	June 2023
Approval of the commercialisation work programme and expenditure of up to £2.3m	June 2023 (subject to draw down milestones)

Approval of procurement strategy and launch procurement	October / November 2023
Approval to enter into agreement for GHNF capital funding of £35m	Subject to timing of award by GHNF
Approval of FBC and establishment of the JV SPV	December 2024

## 4. Issues for consideration

### GNHF Funding

- 4.1 This section will provide the Committee with an update on the pre-commercialisation activities shown diagram in section 3.4.
- 4.2 The OPDC applied for a grant of £35,000,000 to the GHNF in February 2023. OPDC and its consultants have responded to two rounds of clarifications. The advice given to OPDC by their consultants who have worked with the GHNF fund previously is that the number of clarifications and the type we have received is a positive sign for the project, and we hope to satisfy all outstanding queries.
- 4.3 The GHNF Investment Committee has delayed the the meeting that will consider OPDC's application. The board will now meet on 31 May 2023. Should OPDC's application be approved, an additional 10 working days is required for ministerial approval.
- 4.4 This will result in the Board's decision made public on 14 June 2023. This is four weeks later than initially planned, but still within the June 2023 window identified within the Key Milestones table in Section 3.4
- 4.5 **JV Procurement Strategy**
- 4.6 OPDC's commercial and legal teams are in place and developing three options for a potential commercial structure for a Joint Venture arrangement with the private sector to deliver the heat network.
  - a) Development Agreement (DA) - OPDC provide £45m (£35m GHNF & £10m Carbon Off Set) and are the client under a traditional DA arrangement.
  - b) Special Purpose Vehicle (SPV) with a special share – OPDC provide £45m and written into the terms of the shareholder agreement are certain reserve matters that OPDC have control over.
  - c) SPV with additional capital, over and above the £45m, provided by OPDC - OPDC will have more control and take more risk over the delivery of the heat network.
- 4.7 To support the production of these options early market engagement is underway and is due to be concluded by the end of May 2023.
- 4.8 The Programme in section 3.5 states approval of the procurement strategy is required in October 2023, to allow the launch of the procurement in November

2023. The procurement strategy will be brought to this Committee's September meeting.

### **Procurement of the Consultant Team**

- 4.9 OPDC released a tender for the multi-disciplinary consultant Commercialisation team on 27 March 2023. This team will include the following consultants:
- Technical Advisors – providing technical support, detailed design of network route and energy centres, techno-economic modelling.
  - Commercial Advisors – undertaking commercial negotiations with heat off takers and suppliers, advice on structure and procurement of partner, procurement management.
  - Financial Advisors – undertaking financial modelling, tax advice and delivery vehicle options.
- 4.10 The contract award was due to be on 26 May 2023. However, due to the delay on the GHNF decision this has been pushed back to mid-June. The budget for the pre-commercialisation phase approved by DISCo in February 2023 and delegated authority was given to OPDC's Chief Executive Officer by the Board in March 2023. Final award of this contract will be made in June 2023 and will be subject to the outcome of OPDC's GHNF bid.

### **Secure Support**

- 4.11 OPDC have begun discussions with two developers of the Data Centres being built in Park Royal. These discussions are being progressed across both technical network and commercial requirements. Technical interfaces include ensuring pipe-runs and plant rooms for heat exchangers are accommodated in applicants' designs. The commercial discussions are focused on developing agreed Heads of Terms or securing a Letter of Intent re: future connection to allow final agreements to be reached with our procured partner.
- 4.12 The customers for the first phase of the heat network identified were, Central Middlesex Hospital, Imperial and Notting Hill Genesis. Discussions about developing more detailed heads of terms have commenced or are due to take place in over May and June 2023.
- 4.13 OPDC sits on the boarder of two Distribution Network Operators (DNOs) for electricity, UKPN and SSEN. OPDC is in discussions with both operators to develop our plans to secure the electrical capacity required for the heat network and mitigate any delay.
- 4.14 Current rules governing the allocation of electricity capacity require it to be provided on a first come, first served basis. This means that any customer seeking connection following these larger demand customers must wait until those reinforcements are complete. OPDC will be making an application for the power demand required. This will allow both UKPN and SSEN to carry out more detailed estimates of the cost of connections but will also place the heat network in the "queue" for capacity. This work can be funded from current approvals.

## Risks and issues

- 4.15 The table below summarises the key project risks and mitigations as reported in the February 2023 paper. They have not changed but the update May 2023 column provides an update on how these are being managed through the pre-commercialisation phase.

Risk	Mitigation	May 2023 Update
Unable to secure agreement with new data centres for heat offtake.	<ul style="list-style-type: none"> <li>Build on initial engagement with data centres to agree terms, setting out benefits and cost savings</li> </ul>	<ul style="list-style-type: none"> <li>Detailed discussions ongoing, Head of Terms being developed by commercial and legal team.</li> </ul>
IRR insufficient to attract a private sector funding in the project.	<ul style="list-style-type: none"> <li>Current IRR is within expected range and includes optimism bias, risk and contingency</li> <li>Early engagement with investors during commercialisation to confirm requirements and risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>Changing market conditions including increased cost of finance and increased yield of low-risk investments may mean that target metrics increase.</li> <li>Market testing underway, testing the project IRR is a key question being put to the market.</li> <li></li> </ul>
GHNF is not secured	<ul style="list-style-type: none"> <li>Application on terms that meet GHNF requirements. Ongoing engagement with GHNF team throughout</li> </ul>	<ul style="list-style-type: none"> <li>Application has been submitted and all clarifications have been responded to in a timely manner.</li> <li>Costs for meeting zero-carbon development objectives are included in the Outline Business Case for Old Oak West.</li> </ul>
Land or rights not secured, resulting in inability to locate and deliver necessary infrastructure	<ul style="list-style-type: none"> <li>Development of land assembly strategy as part of OOW (use of Powers if required)</li> <li>Early engagement with others for works co-ordination</li> </ul>	<ul style="list-style-type: none"> <li>The heat network team are working with the land assembly team to identify the land required for energy centres and establish a co-ordinated approach.</li> </ul>
Risk that capital grant cannot be committed ahead of March 2025	<ul style="list-style-type: none"> <li>Ongoing monitoring of realistic programme with early flags and lead-in time for OPDC / GLA decisions</li> <li>Explore frameworks for efficient procurement</li> </ul>	<ul style="list-style-type: none"> <li>The GHNF have extended the deadline by which their grants can be committed to 2028.</li> </ul>

- 4.16 The key risks to the project have not changed but the mitigations state above and reported previously are all being managed in a pro-active way through the pre-commercialisation phase.

## **5. Equality comments**

- 5.1 OPDC must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation, as well as to the need to advance equality of

opportunity and foster good relations between people who share a protected characteristic and those who do not.<sup>1</sup>

- 5.2 At the current stage, it is not anticipated that the project will have a negative impact on any particular group. Conversely, the project intends to provide heat at an affordable price and shield residents and businesses from the fluctuations that can arise from changes in wholesale energy prices as is currently being witnessed.

## **6. Financial implications**

- 6.1 The expenditure of up to £150,000 for limited “critical path” work on the heat network was approved by OPDC’s Board in March 2023. All current OPDC expenditure is being managed within this approval and within its 2023/24 budget.
- 6.2 The GLA has identified that it can provide further support of up to £80,650 from its Local Area Energy Accelerator (LEA) programme. This will be managed and spent directly by the GLA but working with the OPDC team in jointly developing the work.

## **7. Legal implications**

- 7.1 There are no particular legal implications arising from this paper, it is an update on project activity proposed and reviewed in the February paper submitted to the committee.

## **8. Appendices**

None

## **9. Background papers**

[Application to Green Heat Network Fund](#)

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<sup>1</sup> This involves having due regard to: the need to remove or minimise any disadvantage suffered by those who share a protected characteristic or one that is connected to that characteristic; taking steps to meet the different needs of such people; and encouraging them to participate in public life or in any other activity where their participation is disproportionately low. The protected characteristics and groups are: age, disability, gender reassignment, pregnancy and maternity, race, gender, religion or belief, sexual orientation and marriage/ civil partnership status. Compliance with the Equality Act may involve treating people with a protected characteristic more favourably than those without the characteristic. The duty must be exercised with an open mind and at the time a Decision is taken in the exercise of OPDC’s functions.