

TITLE OF REPORT: Contract Awards for District Energy Extensions

REPORT OF: Peter Udall, Strategic Director, Economy, Innovation and Growth

Purpose of the report

1. To seek approval to award contracts to PPSL Ltd for the installation of the heat/power network assets and to Gateshead Energy Company Limited (GEC) for energy supply and connection agreements to four Council buildings.

Background

2. In December 2020, the Council secured a £7.5m grant from the Public Sector Decarbonisation Scheme, to fund the following works:
 - i. Installation of solar PV systems to Council buildings, and 2 urban solar parks; and
 - ii. Extension of the Gateshead District Energy Scheme, to 4 council-owned buildings – Park Road and Shearlegs Road depots, Gateshead Stadium, and Gateshead Academy of Sport.
3. Detailed design of the works has been ongoing, and the solar PV element, at ca. £3m, has been procured, with contracts awarded, as agreed by Cabinet in March 2021. Design and procurement of the heat/power network extensions has been ongoing.

Proposal

4. To deliver the heat/power network extension the Council has already commissioned network designs from Gateshead Energy Company. These designs have been used to inform the procurement of the works to install the networks as follows:
5. **Heat network / fibre network / power ducts.** The Council has issued an Invitation to Tender for works to install these assets, through the Council's Dynamic Purchasing System.
6. Two tenders were received from the following:
 - i. PPSL Ltd
 - ii. Morrisons Energy Services Ltd
7. Following a full evaluation, the tender received from PPSL Ltd scored the highest combined price / quality score, based on a 50 / 50 weighting between price and quality. It is recommended that PPSL Ltd be awarded the Contract.

8. **Power connections / heat network and customer commissioning.** As per Appendix 1, the Council has determined that GEC is the sole supplier that can provides these services.
9. It is proposed to enter into Energy Supply and Connection Agreements with GEC Ltd, for the four buildings below, so that the Council can complete and commission customer energy connections (at a cost of £0.9m), to secure long term low cost, low carbon energy supply (valued at £0.9m over 5 years) for these sites below:
- i. Shearlegs Road Depot (heat only)
 - ii. Park Road Depot (heat only)
 - iii. Gateshead Stadium (heat and power)
 - iv. Gateshead Academy of Sport (heat and power)

Recommendations

10. Cabinet is recommended to:
- i. Agree that the tender received from PPSL Ltd priced at £2.9m be accepted for the Contract for Supply and Installation of Heat Network, Ducting for Private Wire and Fibre for East Extension of Gateshead District Energy Scheme, subject to no challenge being received during the statutory standstill period;
 - ii. Authorise the Strategic Director, Economy, Innovation and Growth to agree and approve the final contract sum and the scope and terms of the contract with PPSL Ltd, in consultation with the Strategic Director, Corporate Services and Governance and the Strategic Director, Resources and Digital;
 - iii. Approve the Council entering into Energy Supply and Connection Agreements with Gateshead Energy Company Ltd, for Park Road Depot, Shearlegs Road Depot, Gateshead Stadium, Gateshead Academy of Sport with a total contract value of no greater than £1.8m (£0.9m connection cost, and £0.9m for energy supply); an
 - iv. Authorise the Strategic Director, Economy, Innovation and Growth to agree and approve the final contract values and terms with Gateshead Energy Company Ltd, in consultation with the Strategic Director, Corporate Services and Governance and the Strategic Director, Resources and Digital

For the following reasons:

- i. To support the Thrive Agenda, as outlined in Appendix 1.
- ii. To support the Council's Climate Emergency, and targets of net zero emissions by 2030
- iii. To continue to generate savings for the Council to support Council finances

CONTACT: Jim Gillon, Energy Services Manager

extension: 3923

Policy Context

1. On a local level, the scheme will directly deliver many objectives within the Thrive agenda, as follows
 - a. *Invest in our economy.* Investing in major energy infrastructure, which increases external grant spend in Gateshead, to then increase local generation and sale of energy, which can be reinvested in Gateshead.
 - b. *Opportunities for employment, innovation and growth.* To further support business case and attractiveness of new development in Gateshead Urban Core with a low carbon energy offer.
2. In addition, the scheme will contribute to other key priority areas for the Council, as follows:
 - i. Climate Emergency – the proposals seek to reduce the carbon emissions of the Gateshead District Energy Scheme, supporting the Council's ambition to work toward net zero emissions by 2030
 - ii. Air quality – the proposals seek to reduce reliance of Gateshead Energy Centre's combustion of natural gas, which will reduce emissions of air pollutants in Gateshead town centre.

Background

3. On 30 Sept 2020, the government released details of the Public Sector Decarbonisation Scheme (PSDS), a £1bn fund to help public buildings reduce carbon emissions.
4. The Council was successful in securing £7.51m grant, to fund 100% of the costs of the following.

Works to install	Sites covered	Initial Budget
Heat network connection	Park Rd, Shearlegs Rd, Gateshead Stadium, Academy of Sport,	£4.0m
Solar PV systems	Baltic Quarter solar farm (2MW), Stadium solar farm (1MW), Civic Centre car port (0.23MW)	£2.98m
Private Wire Connections	Gateshead Stadium, Academy of Sport,	£0.53m
Total Capital cost		£7.51m

5. The Council has tendered and awarded contracts for the solar PV systems, as agreed by Cabinet in March 2020. This report seeks to confirm contracting arrangements for the heat network and private wire connections.
6. In determining the procurement and contracting route for the remainder, consideration was given to the value and nature of the elements that make up the works / services, as follows:

Works / Services	Element	Value	Contracting Route
Heat supply	Civil works (trenching)	£1.7m	Competitive
	Pipe installation	£1.5m	Competitive
	Fibre comms installation	£0.2m	Competitive
	Network connection / commissioning	£0.15m	Sole supplier
	Customer connections / commissioning	£0.45m	Sole supplier
	Heat Supply	£0.066/yr	Sole supplier
Power supply	Civils works (trenching + ducting)	£0.23m	Competitive
	Customer connections / commissioning	£0.3m	Sole supplier
	Power Supply	£0.108/yr	Sole supplier

7. For items that could be competitively provided by a range of suppliers, elements were combined into an Invitation to Tender, under the Council's Dynamic Purchasing System for Construction Contractors and Sub Contractor (Lot 74f). This tender was issued on 8 April 2021.
8. Other items were deemed to be only able to be provided by GEC for the following technical reasons:
 - a. Heat network connections / commissioning. As operator of the existing DH network, connection of the newly installed pipe network to existing network, including flushing / cleaning / water treatment can only be carried out GEC , to protect existing infrastructure / water quality / pumping arrangements.
 - b. Customer connections / commissioning for heat/power. Similarly, to integrate with GEC control systems for heat/power , and to be carried out in line with GEC's operating / safety procedures for high voltage and heat networks, these can only be carried out GEC
 - c. Heat/power supply agreements. GEC is the only commercial operator with an existing energy network in the area, that can provide ongoing private energy supply agreement. No other party is in a position to provide such services.
9. Therefore, the Council proposes to directly negotiate contracts with GEC for these works / services, following Section 32 of the Public Contract Regulations 2015, relying on Section 32-2-b-ii, which states:

(2) The negotiated procedure without prior publication may be used for public works contracts, public supply contracts and public service contracts in any of the following cases:—

(b) where the works, supplies or services can be supplied only by a particular economic operator for any of the following reasons:—

(ii) competition is absent for technical reasons,

10. This follows a precedent reviewed and agreed by Cabinet on two prior occasions:
 - a. Cabinet report “Award of Contracts to Gateshead Energy Company” – 23 Feb 2016
 - b. Cabinet report “Procurement of a Heat Supplier for ERDF Energy projects” – 20 Feb 2018
11. In line with procurement guidance, a Voluntary Ex Ante Transparency (VEAT) Notice would be published, to state the Council’s intention. If there is no challenge after 30 days, the Council is able to contract without risk of future challenge. This was followed for the two previous contract awards above, and no challenge from other parties was received.

Proposal 1 – contract award for Heat / fibre network and power ducts

12. The Council sought tenders for contractors to Install heat network, fibre network and power ducting, through a further competition under the Council’s Dynamic Purchasing System (DPS) for construction contractors and sub - contractors (lot 74f)
13. The invitation to tender requested supply and installation of the following works
 - Supply and install 1.25km of heat network, fibre comms and power ducting, from Shearlegs Road Depot to Gateshead Academy of Sport
 - Leak test, purge and fill with nitrogen the heat
14. The contract is for the duration of the works, which is estimated to be ca. 6 months.
15. Two tenders were received from the following,
 - 1 PPSL Ltd
 - 2 Morrisons Utilities Services Ltd
16. Following a full evaluation, the tender received from PPSL Ltd, priced at £2.9m, scored the highest combined price / quality score, based on a 50 / 50 weighting between price and quality. It is recommended that PPSL Ltd be accepted for the above Contract.
17. The final appointment of the contractor remains subject to receiving no challenge during the statutory standstill period, following notification of bidders. Final contract terms and conditions, along with the final contract scope and value, are to be agreed. It is requested that these approvals are delegated to Strategic Directors, Economy, Innovation and Growth to allow the delivery of the works not to be delayed, as the timescales for delivery are dictated by government grants.
18. It is noted that the tendered sum of £2.9m from the preferred bidder is below the budgeted amount of £3.5m, providing project contingencies going into the construction phase.

Proposal 2 – contract award for Energy Supply and Connection agreement

19. The Council requires the following services, to complete and commission the energy connections using the infrastructure installed by the contractor above and to provide an ongoing energy supply to four Council owned buildings:
- Heat network filling / cleaning / commissioning and connection to GEC's existing heat network
 - Customer heat connections and commissioning to the new network, and integration to GECs controls and alarm system, for four buildings
 - Power network connections and commissioning to GECs power network, for 2 buildings
 - Heat and power supply agreements going forward, to provide low carbon, low cost energy
20. Having been determined as the sole supplier for these services (see above), GEC has been requested to provide Connection and Energy Supply Agreements for these services.
21. The terms and conditions of the agreement are as follows:
- Heat pricing to be offered at 10% below market benchmark (both fixed and variable charges)
 - Power pricing to be offered at 5% below market benchmark (both fixed and variable charges)
 - Term of contract to be 5 year rolling period, with option to renew at end, subject to satisfactory performance (note: this is shorter than previous agreement, as the Council is funding all connection costs and network installation itself via 100% grants)
 - Connection fees are payable in full, on execution of the agreement, to cover in full all GEC's costs to connect and commission these new networks and customers
22. The costs of connection quoted are £886,359, based on GEC's specific costs per site and are broken down as follows:

Site	Heat connection	Power connection	Total
Shearlegs Rd	£124,471		£124,471
Park Rd	£189,483		£189,483
Gateshead Stadium	£142,913	£151,698	£294,611
Academy of Sport	£126,095	£151,698	£277,794
Total	£582,962	£303,397	£886,359

23. The specifications of the ongoing supply agreements are outlined in the table below, for each building, referencing the estimated contract value for services (annual, and total 5 year value, corresponding with the contract term)

BUILDING	Heat, kWh/yr	Power, kWh/yr	Heat capacity, kW	Power capacity, kW	Annual value, £m	Annual value, £m	Total contact value, £m
Shearlegs Rd Depot	499,591	n/a	800		£0.02	£0.00	£0.02
Park Rd Depot	414,983	n/a	500		£0.02	£0.00	£0.02
Gateshead International Stadium	661,741	479,656	300	240	£0.02	£0.07	£0.09
Gateshead college Academy of Sport	314,580	197,578	300	225	£0.01	£0.03	£0.04
Total	1,890,894	677,234	1,900	465	£0.07	£0.11	£0.17
5yr total					£0.33	£0.54	£0.87

24. With the terms offered, its estimated that ca. £12,000 savings against existing costs will be achieved in total across the four sites. In addition, the sites will secure low carbon energy supplies, saving 476 tonnes CO2 per annum going forward.

25. It is therefore proposed that:

- a. The Council varies the existing Energy Supply Agreement between the Council and GEC, to add relevant sites to this agreement (Shearlegs Road, Park Road, Gateshead Stadium) with the terms / costs outlined above
- b. The Council, as owner of Academy of Sport, agrees a new tri-partite Energy Supply and Connection Agreement with GEC (supplier) and Gateshead College (tenant), for Gateshead Academy of Sport site.

Consultation

26. The Leader, Deputy Leader, Cabinet members for Environment & Transport and Ward Members have been consulted

Alternative Options

27. The other options considered, and discounted, are as follows

- *Heat network tender.* The anticipated value of this contract exceeded the threshold requiring competitive tenders to be invited in accordance with the EU Public Procurement Directives; therefore, the only alternative would have been to undertake an open tender process rather than use the Council's DPS, however the DPS offered the quickest route to contracting, to meet the grant spend deadlines.
- *Supply / Connection agreements.* No other options were available, having determined GEC to be the sole supplier capable of providing these works and services.

Implications of Recommended Option

28. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms that the Capital Programme has £4.5m allocated to support heat and power network connection, funded 100% from external grants, which is sufficient to cover the £3.8m of combined capital value of contracts awarded in this report
- b) **Human Resources Implications** – projects to be managed by existing Council staff.
- c) **Property Implications** – as described, council land and building will benefit from the infrastructure installed. Should sites be disposed of in future, the infrastructure would support energy supply to those sites under different ownership or use

29. Risk Management Implications – As with many major infrastructure schemes there are a number of significant key risks as follows:

- b. Procurement – as outlined above, both procurement approaches have risk of challenge. The negotiated contract with GEC carries the greater risk, but the Council has justified its use of this, in line with the Public Contract Regulations, and following previous decisions made in line with this approach, neither of which attracted challenge.
- c. Cost overrun – contract values are based on information / designs issued at tender / design stage. Should unknowns / abnormalities be incurred by contractors in the course of works, unless these are contractor risks, costs to the Council could increase. However, value achieved through tendering has generated contingency budgets to cover cost overruns

30. Equality and Diversity Implications – none.

31. Crime and Disorder Implications - none.

32. Climate Emergency and Sustainability Implications – the scheme directly supports the Council and GEC in achieving its objectives from the Climate Emergency, to move Council operations towards becoming Zero Carbon by 2030.

33. Human Rights Implications - There are no human rights implications

34. Ward Implications - The proposals are located in Bridges and Felling Ward

Background Information. None