



**Committee: Corporate  
Policy & Resources  
Communities**

**Date 21<sup>st</sup> September 2017**

**Subject: Commercial Opportunity – Battery Storage**

Report by:

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Purpose / Summary:

To update Members with regard to progress on carbon efficiency projects and request the appropriate funding be set aside.

**RECOMMENDATION(S):**

- 1) Members agree to Officers continuing to work on Option 3 detailed in paragraph 3.2 of this report taking into account all procurement and planning considerations, and agree to receive a further report in order to confirm the level of investment required and how this will be sourced at the appropriate time.

**IMPLICATIONS**

**Legal:**

The Council has a legal right to form a joint venture company with a private investor.

All procurement regulations will be followed and planning consent would be required

**Financial : FIN/69/18**

The cost of research and development of the business case has totalled £7k and has been contained within existing budgets.

A capital budget and funding will require approval and this will be subject of a future report, however the business case supports the use of Prudential Borrowing as a means of financing the capital investment.

The table below provides indicative figures with an estimated contribution to the Medium Term Financial Plan savings target of £45,712 (having taken account of the costs of borrowing) annually for 10 and potentially up to 15 years for Option 3.

The project appears to be viable based on current information but this is not without risk. The worst case scenario would be for the Council to lose its initial investment, however, this risk will be fully assessed and brought before Committee as part of final proposals.

**Staffing :**

There are appropriate resources in place in order to deliver the project if the proposed action is agreed.

**Equality and Diversity including Human Rights :**

None arising from this report.

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**Risk Assessment :**

A full risk assessment has been produced for the project. Identified risks are being proactively managed by the Senior Project Officer and project team.

**RISK:** The Government are currently consulting on the revision of battery storage income structures will be reduced (to be applied from April 2019).

**MITIGATION:** The private sector are lobbying for a 5 year assurances on income streams and rates.

**RISK:** The National Grid place a constraint of 12 months to deliver the project to completion once they have approved the connection offer.

**MITIGATION:** Project plan, procurement and appropriate approvals need to be factored into this timeline.

**RISK:** Capacity to connect to the grid will be taken up in next 18 months.

**MITIGATION:** Appropriate project planning.

**Climate Related Risks and Opportunities :**

This project is beneficial in terms of providing solutions to the impending energy difficulties facing the UK

**Title and Location of any Background Papers used in the preparation of this report:**

None.

**Call in and Urgency:****Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?**

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

**Yes**

**No**

**x**

**Key Decision:**

A matter which affects two or more wards, or has significant financial implications

**Yes**

**No**

**x**

**1 Background**

- 1.1 Officers have been continuing to look at ways of using capital resources to generate additional income and have been looking into the potential around the battery storage of electricity. This represents a commercial opportunity for the Council to improve its financial position and help to provide a solution to the imminent power difficulties facing the UK.

- 1.2 The concept is that a connection to the National Grid is made and batteries are subsequently connected. They will have the potential to store electricity when supply is high and release this back to the Grid in times of low supply.
- 1.3 Officers have been working with a group of national Councils together with an expert from Asset Utilities to fully understand the opportunity and potential benefit for West Lindsey District Council. In May Officers attended a meeting held by Gloucestershire County Council when six battery investors presented their financial models for battery storage. This has allowed the Council to develop an indicative business case in order to assess the opportunities and the level of risk attached.
- 1.4 Intelligence from the market place suggests that within the next eighteen months no further grid connections will be granted due to capacity being fully taken up. The National Grid also place a constraint of twelve months after the establishment of a grid connection on the development of the batteries. This means that if we are to go ahead with this project, it has to happen quickly.
- 1.5 The batteries themselves have a warranty of ten years with potential to be fully functional for fifteen years. This gives a project life of ten years, with the potential to extend to fifteen.
- 1.6 The Government recently indicated that they would be reviewing income structures for batteries from 2019.

## **2. Work Undertaken to Date**

- 2.1 A site appraisal has been carried on land already in the Council's ownership to assess whether any of these would be suitable for development.
- 2.2 A total of five budget applications were then made to National Grid to see whether connection was possible. Two sites have proved suitable for development, being the land at the rear of Mercury House in Gainsborough and land down Causeway Lane in Lea.

## **3. Options**

- 3.1 Officers have looked at the options around how to take this project forward. These include:
  - 1) Securing the grid connection and leasing the land to a battery investor directly
  - 2) Developing and managing the battery connections ourselves
  - 3) Forming a joint venture with a battery investor with a percentage split on income and expenditure.

3.2 The table below demonstrates indicative figures on these options:

Financial Analysis	Option 1	Option 2	Option 3
	Rent Land	100% Invest 100% Rewards	20% Invest 20% Rewards
*Net Annual Inc (-) / Exp	-11,464	-514,548	-90,442
Total Capex	0	1,868,870	432,974
NPV viable/(-) not viable	80,518	1,477,323	140,215
IRR	0.00%	22.00%	13.57%
Pay Back period years	N/A	4.00	6.00
** MTFP (-) contribution	11,464	296,936	45,712

3.3 Whilst selling or leasing the land would provide a return, the greatest financial benefit would come from either developing the sites ourselves or forming a joint venture with a battery investor.

3.4 Taking into account the risks around future income and the lack of expertise within the Council to manage the control and sale of energy, it is not proposed to take forward this option. In addition the lead in time for new batteries would be in excess of 12 months which could result in the National Grid withdrawing their formal offer of connection.

3.5 The recommended option would be for the Council to form a joint venture with a battery investor on an 80/20 basis. This would reduce the Council's risk in terms of capital but still represents an annual income of £90,442 per annum for 10 years, after costs of borrowing this will provide a contribution to the MTFP savings target of £45,712. In addition it may be possible to offset some of the 20% capital required by putting the land into the joint venture. Under this option the land would remain in the ownership of the Council and would be returned to us at the end of the project.

## 4 Recommendation

4.1 It is hereby **RECOMMENDED** that Members:

Agree to Officers continuing to work on Option 3 detailed in paragraph 3.2 of this report taking into account all procurement and planning considerations, and agree to receive a further report in order to confirm the level of investment required and how this will be sourced at the appropriate time.