

3-Year Business Plan

Notting Dale Heat Network Ltd

April 2023 to March 2026

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[Speed Agency to design Business Plan + Plain English for public facing version via Crystal Mark]

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I. EXECUTIVE SUMMARY

Dear Stakeholder

What happened at Grenfell Tower was a national tragedy, the worst incident of its kind in domestic premises since the Second World War. In the early hours of 14 June 2017, the Grenfell Tower caught fire, resulting in the deaths of 72 residents, including 18 children. A further 371 residents from the Tower and the Walk lost their homes and hundreds of others were evacuated in the immediate aftermath.

In the wake of the Grenfell Tragedy, a commitment was made by all levels of government to deliver a resident-led refurbishment to transform Lancaster West into a 21st century model estate. The Refurbishment Programme at LancWest and the resultant energy efficiency improvements are forecast to reduce residential heat demand by at least 25%. In addition, as landlord of two existing end-of-life heat networks at Lancaster West Estate, the Council has developed the Business Case to deliver a new 100% renewable heat network at Lancaster West.

Our ambition is to quickly expand this Phase 1 heat network at LancWest into Notting Dale ward (Phase 2) and beyond. This will help protect customers from rapidly increasing energy prices and fuel poverty, whilst supporting the Council to move towards carbon neutrality by 2030.

[signature and photo]

Kim Taylor-Smith

Deputy Leader and Lead Member, Grenfell, Housing and Social Investment

In January 2022 the Council established 'Notting Dale Heat' to design, build, operate and maintain the Notting Dale Heat Network.

As a 100% Council-owned business, Notting Dale Heat is well placed to help deliver Kensington and Chelsea Council's Corporate Priorities of Grenfell Recovery; a great place to live, work and learn; and Healthy, clean and safe. We are also delivering the Council's Cross-Cutting themes of Community Involvement and Narrowing the Gap.

The Council, in its capacity as landlord of Lancaster West Estate, is putting residents first to drive an excellent customer experience. This will create a nationally significant model and launchpad for rapid heat network expansion, which can be rolled out across the Borough and beyond.

[signature and photo]

Terry Oliver

Interim Chair, Notting Dale Heat

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2. INTRODUCTION

The zero-carbon Notting Dale Heat Network will put customers first, rely solely on 100% renewable heat sources and help tackle fuel poverty.

80% of Lancaster West Estate homes are currently connected to the two existing heat networks that were built in the 1970s, which are close to the end of their life and will be completely replaced. Over 50% of residents have reported a heating and hot water issue in the last 6 months [update statistic]. There is a compelling case for change, with 83% support from residents for a modern new heat network.

Phase I of the heat network at Lancaster West Estate, in North Kensington, is being co-designed with residents. This includes design of the new thermal stores and a Resident Price Promise. Two Resident Board Members provide customer voices on the Board of Notting Dale Heat, which is a UK first for a Council-owned heat network.

We are due to go live with first 'Heat On' in 2024. The heat will come from a large Air Source Heat Pump installed on the roof of Kensington Leisure Centre, a large electric boiler and a new thermal store (large water battery) in an iconic new building between Kensington Aldridge Academy and the leisure centre. Green electricity will be used to power the heat network, supported by on-site roof-mounted solar panels installed across the Estate.

Trying to sell less heat is not what you would typically expect from an energy company, but it's what Notting Dale Heat customers will experience as business as usual. We are a truly sustainable local energy company. As a 100% Council-owned energy company we put customers first and do all we can to reduce customers' energy demand and energy bills.

Notting Dale Heat provides a once in a generation opportunity to put a green recovery at the heart of a Grenfell recovery. By combining zero-carbon heat supply with building energy efficiency improvements, we reduce energy demand, and deliver environmentally responsible heating that helps protect the planet. We take a broader view of social and financial value of a zero-carbon heat network to help deliver the Council's corporate priorities of carbon neutrality, fuel poverty, clean air, health and social investment.

Delivering an excellent customer experience at LancWest, will create a launchpad for rapid heat network expansion. Notting Dale Heat aims to roll out this nationally significant model across the Borough and beyond. Notting Dale Heat is a financially sustainable business, with huge potential for growth. It is a force for good that helps deliver multiple corporate objectives. As it grows, Notting Dale Heat will become a key strategic asset for the Council and borough, demonstrating and delivering an achievable zero-carbon pathway for densely populated urban areas.

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The Heat Network will add value to the Council's existing investment to improve the quality of the homes at LancWest. The Refurbishment Programme is due to be completed by the end of 2026, during which time the Council-owned tenanted and leasehold property at the Estate will be heavily refurbished. These works, being funded by the Housing Revenue Account, will install both the new tertiary networks within each property, and the new secondary networks required to connect every block to the primary network and energy centres.

Having a local energy company allows for the focussed management, clear budgeting and professional management that is seen as key to successfully extending the heat network over time to serve other major heat loads with zero-carbon heat, both within the Notting Dale ward and beyond.

This 3-Year Rolling Business Plan sets out how the company will deliver the aims and objectives set out in the Memorandum and Articles of Association [\(hyperlink\)](#). It is a central document on what the company intends to do, based on defined assumptions and taking into account specific risks and opportunities. The Business Plan will be updated and reviewed annually. The Shareholder Agreement and Delegations Matrix provide the legal framework for this activity [\(hyperlink\)](#).

No planning has been undertaken for any Exit Strategy for the Council during this 3-Year Business Plan.

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BUSINESS PLAN SUMMARY

Vision	Partners	Services	Revenue Streams
<p>The zero-carbon Notting Dale Heat Network will:</p> <ol style="list-style-type: none"> 1) Put customers first 2) Rely solely on 100% renewable heat sources 3) Help tackle fuel poverty 	<p>Strategic partners:</p> <ul style="list-style-type: none"> ○ <i>Kensington and Chelsea Council as landlord</i> ○ <i>LancWest Neighbourhood Team</i> <p>Funders: <i>Council, Housing Revenue Account, UK Government and GLA</i></p> <p>Suppliers and contractors: <i>tbc</i></p> <p>Public</p>	<p>Notting Dale Heat will deliver a high-quality service. We supply heating and hot water which is:</p> <ol style="list-style-type: none"> 1) Highly reliable 2) 100% renewable 3) Backed by an excellent customer experience <p>We will investigate renewable cooling as a service as we expand.</p>	<p>Revenues are forecast to come from the delivery of two business area:</p> <ol style="list-style-type: none"> 1) Heat sales and related maintenance 2) Developing new heat network opportunities to support the Council's zero-carbon targets for its own properties, the wider Borough and beyond.
Objectives	Customers	Resources	Capital Funding (CapEx)
<ol style="list-style-type: none"> 1) Work in partnership with residents and commercial customers to deliver an excellent customer experience 2) Do all we can to protect customers from rising energy prices and fuel poverty 3) Support the Council to move towards carbon neutrality by 2030 	<p>These customers will receive heating and hot water bills, potentially white labelled as 'Notting Dale Heat:'</p> <ul style="list-style-type: none"> ○ Phase 1: <i>LancWest residents, Kensington Aldridge Academy, Kensington Leisure Centre and Baseline Studios</i> 	<p>We have developed a 'Minimum Viable Product' for resources to build Phase 1 and turn Notting Dale Heat into an operational business.</p> <p>Additional resource requests will be linked to delivery of the Business Development Strategy in Section 8. This will generate additional revenues, which in turn will help cover ongoing Resource costs.</p>	<p>Estimated cost of Phase 1 primary heat network and energy centre = £10.9m. Funded by £1.116m HNIP grant; Council equity and loans, and connection charges.</p> <p>Estimated cost of secondary and tertiary heat networks = £12m, funded by the Council's HRA.</p>

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4) Create a nationally significant model, which Notting Dale Heat rolls out across the Borough and beyond	<ul style="list-style-type: none">○ Phase 2 in Notting Dale ward: <i>residential and commercial customers</i>		
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3. BUSINESS VISION AND OBJECTIVES

Supporting the Council to deliver its priorities	As a 100% Council-owned business, Notting Dale Heat is well placed to help deliver Kensington and Chelsea Council's Corporate Priorities and Cross-Cutting Themes.		
		Council Priorities	How Notting Dale Heat contributes
	1	Grenfell Recovery	✓ Phase I of the Notting Dale Heat Network is at Lancaster West Estate. We have a well-developed plan to provide highly reliable, 100% renewable heat and a high-quality customer experience to all 826 households. We are putting a green recovery at the heart of the Grenfell recovery.
	2	A great place to live, work and learn	✓ We are working the Refurbishment Programme to make Lancaster West Estate a zero-carbon Estate and a great place to live. We seek to use the same model of energy efficiency improvements and a 100% renewable heat network in the wider Notting Dale ward.
	3	Healthy, clean and safe	✓ Supports the Council move towards carbon neutrality by 2030. The Council is playing a leading role in addressing climate change and improving air quality. Buildings account for 90% of the Council's carbon footprint. Heating and hot water accounts for around one third of these emissions. This is why Notting Dale Heat represents a viable pathway to carbon neutrality.
		Cross-Cutting Themes	
	1	Community involvement	✓ One of our three Objectives is to work in partnership with residents and commercial customers to deliver an excellent customer experience. As with the Refurbishment Programme, Notting Dale Heat is putting resident first. We have co-designed the heat network with our future customers. This level of community involvement has strengthened the quality of the future customer experience and level of resident buy-in. 83% of residents support the new heat network. We will continue to find new ways to involve and listen to residents and service users. This includes the appointment of two Resident Board Members to Notting Dale Heat in July 2022, who provide customer voices at the table when important decisions are made.
	2	Narrowing the gap	✓ One of our three Objectives is to do all we can to protect customers from rising energy prices and fuel poverty.

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<p>A perfect 'Window of Opportunity'</p>	<p>The UK government is actively helping to grow the UK's heat network market, in the same way it has successfully done with offshore wind. Government recognises that heat networks are the only way to rapidly and efficiently decarbonise heating in our cities. Government support for heat networks has two important elements:</p> <ol style="list-style-type: none"> 1) National policy supports heat network development: <ol style="list-style-type: none"> a. Carbon reduction: as set out in the Climate Change Act (2008)¹, which provides an 80% carbon reduction target for the UK by 2050. The Energy Act (2013)² makes provision for setting a decarbonisation target range. b. Energy security: delivering UK Energy Investment: Networks (2015) recognises that heat networks as resilient energy networks are fundamental for ensuring energy security in the UK. https://www.gov.uk/government/publications/the-uk-low-carbon-transition-plan-national-strategy-for-climate-and-energy c. Sustainable development and economic growth: the National Planning Policy Framework (2012)³ promotes sustainable development and encourages Local Authorities to establish low carbon energy generation. 2) Gas is being phased out: gas currently provides 85% of heat in the UK. It used to be viewed a clean fuel and optimal solution for heating and hot water in the UK. This has now changed. The true impact of even the cleanest fossil fuel is now recognised as a major contributor to climate change and poor air quality. Gas cannot be part of the future heating solution for Kensington and Chelsea. <ol style="list-style-type: none"> a) <i>New builds:</i> Government has indicated that no new build connections will be connected to the gas grid after 2025. b) <i>Existing buildings:</i> The Committee on Climate Change recommends phase out of existing boilers in domestic and commercial buildings from 2033, and in public buildings from 2030
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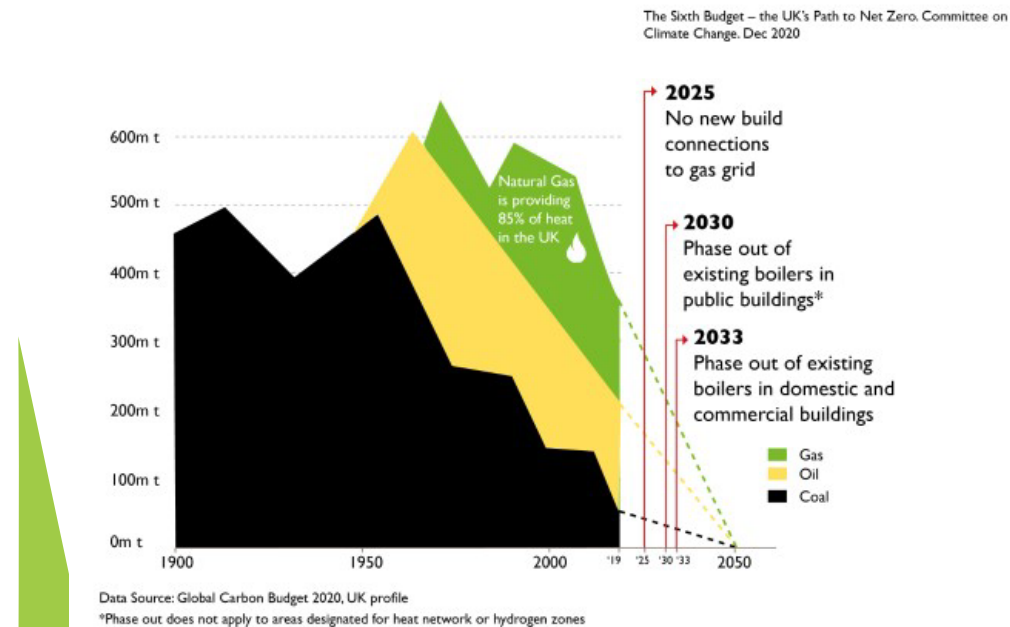
¹ <https://www.legislation.gov.uk/ukpga/2008/27/contents>

² <https://www.legislation.gov.uk/ukpga/2013/32/contents/enacted>

³ <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

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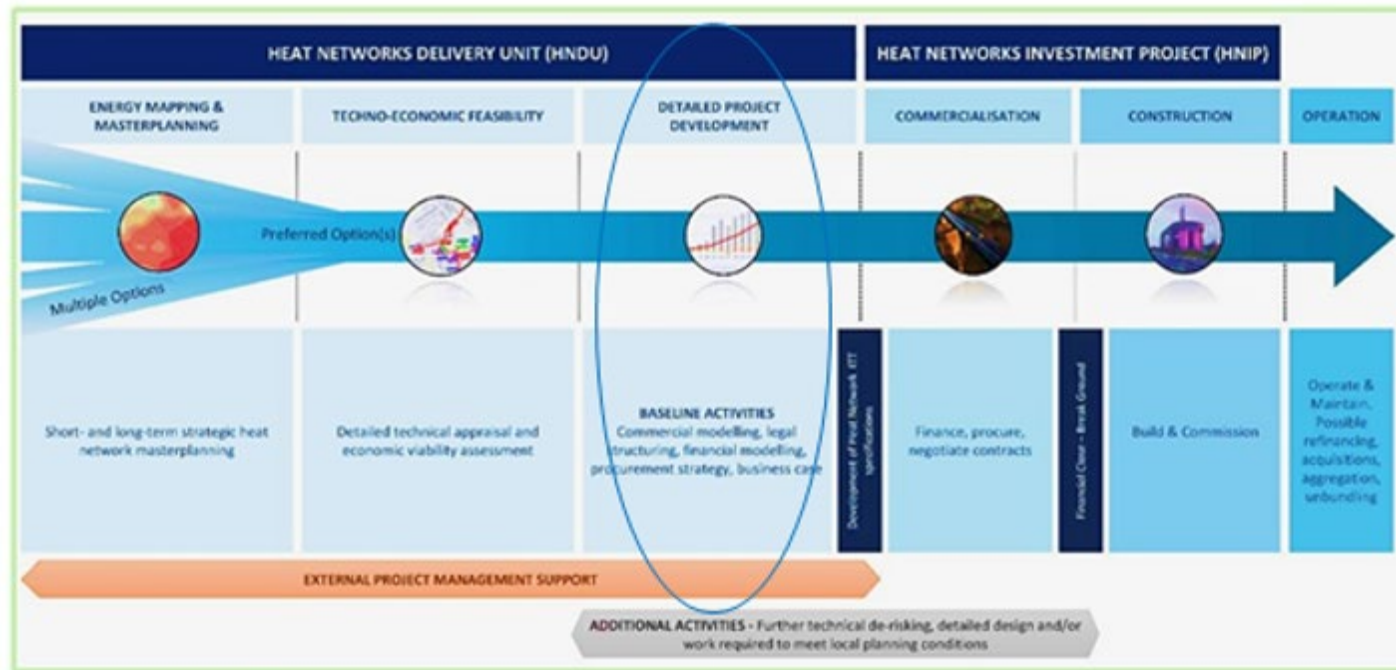
Gas is being phased out



The Future Homes Standard will see [gas boilers](#) and other fossil-fuel [heating systems](#) banned from new homes. Gas is being phased out nationally and won't meet the Council's zero-carbon ambition.

- 3) **A well-developed project pipeline with match-funding:** from the Heat Network Delivery Unit and the £288m Green Heat Network Fund.

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4) Heat Network Regulation (Market Framework):

- **Current Energy and Security Bill:** it will deliver a cleaner, more affordable and more secure energy system for the long-term. This includes providing Heat Network Regulation to protect heat network consumers
- **Heat Zoning from 2025:** Councils will be given the role of Heat Network Co-ordinator. New developments and larger existing public and commercial buildings will be required to connect to heat networks. This creates a business development opportunity for Notting Dale Heat, creating demand certainty to enable investment in heat network expansion.

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Vision	<p>The zero-carbon Notting Dale Heat Network will:</p> <ol style="list-style-type: none"> 1) Put customers first 2) Rely solely on 100% renewable heat sources 3) Help tackle fuel poverty
Objectives	<p>As a 100% Council owned local energy company, Notting Dale Heat differs to many other energy companies. We have four Objectives:</p> <ol style="list-style-type: none"> 1) Work in partnership with residents and commercial customers to deliver an excellent customer experience: we have successfully used resident co-design and now resident co-production to deliver a heat network that is designed for its customers. Our ambition is to make Notting Dale Heat a highly reliable network. This innovative approach is featured as a case study in the UK Government's new Competency Framework for Heat Networks. [link] 2) Do all we can to protect customers from rising energy prices and fuel poverty: trying to sell less heat is not what you would typically expect from an energy company, but it's what Notting Dale Heat customers will experience as business as usual. We are a truly sustainable local energy company. As a 100% Council-owned energy company we put customers first and do all we can to reduce customers' energy demand and energy bills by: <ul style="list-style-type: none"> ○ Using public finance and grants, together with low return on capital, to provide competitively priced renewable heating. We will apply the Council's Resident Price Promise, so residents don't pay a premium by doing the right thing and going green early. ○ Providing Energy Advice to help residents save money, energy and carbon, helping residents to make best use of the heat network controls in their homes. ○ With a small cost base at LancWest, rapid expansion enables the business to create a critical mass of residential and commercial customers. This economy of scale, both through physical expansion of Phase 1 into Notting Dale ward and development of new satellite schemes, will limit fixed costs and help keep control of customers' Standing Charge. 3) Support the Council to move towards carbon neutrality by 2030: Notting Dale Heat provides a once in a generation opportunity to put a green recovery at the heart of a Grenfell recovery: <ul style="list-style-type: none"> ○ By combining zero-carbon heat supply with building energy efficiency improvements, we reduce energy demand and deliver environmentally responsible heating that helps protect the planet. ○ We take a broader view of social and financial value of a zero-carbon heat network to help deliver the Council's corporate priorities of carbon neutrality, fuel poverty, clean air, health and social investment.

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	<ul style="list-style-type: none">○ Notting Dale Heat has the potential to help decarbonise different heat loads, including social housing, the Council's corporate properties and Kensington and Chelsea's 3,900 Listed Buildings. Renewable heat networks offer the only viable heating solution for Conservation Areas, where multiple individual Air Source Heat Pumps would have a significant visual impact. <p>4) Create a nationally significant model, which Notting Dale Heat rolls out across the Borough and beyond:</p> <ul style="list-style-type: none">○ Deliver an excellent customer experience at LancWest, to create a launchpad for rapid heat network expansion.○ There is the opportunity for commercial connections to help subsidise renewable heat supply to social housing, noting that there is no cross-subsidy from social housing to help fund commercial renewable heat connections.○ Notting Dale Heat is a financially sustainable business, with huge potential for growth. It is a force for good that helps deliver multiple corporate objectives. The bigger the heat network, the more the overheads (Standing Charge) is able to be spread over a larger customer base.○ As it grows, Notting Dale Heat will become a key strategic asset for the Council and borough, demonstrating and delivering an achievable zero-carbon pathway for densely populated urban areas.○ This nationally significant model, due to its delivery of Objectives 1 to 3, has the potential to be rolled out across Kensington and Chelsea, other London Boroughs and many other UK cities.
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4. WORKING WITH RESIDENTS

<p>Putting customers first</p>	<p>Resident engagement and co-design are at the heart of the estate-wide Refurbishment Programme and heat network development. Working with residents, regulators, and contractors we seek to put customers first by delivering the following commitments.</p> <p>Customer Charter:</p> <ol style="list-style-type: none"> 1. Resident Co-Design: Customers have informed many important decisions now embedded within Notting Dale Heat. Customer involvement will continue to shape the design and development of future phases, using customer experience to inform day to day-to-day management and operation. Customer voices are on the Board. The heat network board will make management decisions for the heat network and includes two Resident Board Members and heat network customers who live on Lancaster West Estate. This is a UK first for a Council-owned heat network. 2. Resident Price Promise applies until 2030. Residents will pay the cheaper energy price, either gas or renewable heating costs. There will also be extra support for those who need it. 3. Future-proof for Regulation: we will apply to be accredited with the Heat Trust, an independent Customer Champion for service provision. From 2024, Ofgem will regulate heat networks. Our compliance will ensure consumer protection and fair costs, in line with the regulatory protection provided to UK gas and electricity customers today. <p>[For public facing version add photos of resident engagement + quotes from Daniel and Susan on why they're involved + explain their role as potential customers, not resident representatives]</p>
<p>Creating a positive culture for Notting Dale Heat</p>	<p>To be able to enshrine Lancaster West Neighbourhood Team's approach to putting residents first within the company's DNA, all Board Reports will apply the following Decision-Making Principles:</p> <ol style="list-style-type: none"> 1) Safety: maximise resident and worker safety in the design, delivery and maintenance of the network 2) Quality: prioritise quality over price to ensure high-quality homes and a positive heat network experience 3) Value for money: provide heat that is more affordable than the alternatives 4) Sustainability: 100% renewable heating from first 'Heat On'

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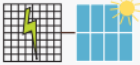
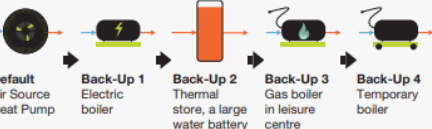

	<p>These principles act as a hierarchy. We don't move to later principles until the earlier ones are satisfied, as already happens with the Refurbishment Programme. The same decision-making principles will form part of the induction training for all staff, Board Members and contractors.</p> <p>We are building a competent experienced team from Board level downwards, to help ensure the company delivers its objectives, remains financially sustainable and to drive heat network expansion for the benefit of all.</p> <p>[Public facing version: add quote from James Caspell]</p>
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5. SERVICES PROVIDED

<p>Delivering what residents have asked for</p>	<p>Notting Dale Heat will deliver what residents have asked for. Residential and commercial customers will be able to:</p> <ul style="list-style-type: none"> a) Control the temperature in their homes and buildings. As is required by regulation, individual heat meters will be installed in all homes and larger commercial properties as part of the new heat network. b) Enjoy highly reliable heating and hot water. c) Be protected from rising energy prices and fuel poverty d) Help tackle climate change, by using 100% renewable heating and hot water from first 'Heat On' in 2024.
<p>What Notting Dale Heat will do</p>	<p>Notting Dale Heat will deliver a high-quality service. We supply heating and hot water that is:</p> <p>1) Highly reliable</p> <div data-bbox="555 863 1254 1284"> <p>How reliable is renewable heating?</p> <p>The new renewable heat network has lots of back-up systems built in. The current communal heat network at Lancaster West Estate has none.</p> <p>We are aiming to make the UK's most reliable heat network at Notting Dale, including the energy source, heat source and pipework.</p> <div> <p>Energy Source</p>  <p>Electricity The Air Source Heat Pump will be supplied with green electricity from the grid. Back-up is provided by solar panels.</p> </div> <div> <p>Heat Source</p>  <p>Default Air Source Heat Pump</p> <p>Back-Up 1 Electric boiler</p> <p>Back-Up 2 Thermal store, a large water battery</p> <p>Back-Up 3 Gas boiler in leisure centre</p> <p>Back-Up 4 Temporary boiler</p> </div> <div> <p>Pipes</p> <p>Smart Pipes & Valves Smart pipes will send a signal if they detect a problem. A valve can seal off pipe so a temporary boiler can connect.</p>  </div> </div>

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	<p>2) 100% renewable</p> <p>Green electricity will be used to generate the electrically powered Air Source Heat Pump and electric boiler. We will maximise the amount of locally generated solar energy from roof-mounted solar panels at Lancaster West Estate, with the remainder purchased as 100% green energy from the National Grid.</p> <p>3) Backed by an Excellent Customer Experience.</p> <p>Notting Dale Heat will:</p> <ul style="list-style-type: none"> ○ Operate and maintain the entire heat network from the energy centres to residents' homes and commercial properties ○ Set the tariff that it bulk bills the Council: to cover its fixed costs and resident fuel usage ○ Set the tariff for and bill commercial customers and residential freeholders ○ Work with the Council to help them set competitive tariffs for tenants and leaseholders, applying the Resident Price Promise until 2030 ○ Undertake 100% of heat metering collection ○ Support residents: with Heating Handover and ongoing support, Energy Advice and Energy Forecasts for individual households, working closely with the Council's Lancaster West Neighbourhood Team and its Heat Network Resident Liaison Officers ○ Provide extra support for those that need it: working closely with the Council's Lancaster West Neighbourhood Team and its Heat Network Resident Liaison Officers ○ Provide technical knowledge: we will share operational performance and a feedback loop with the customer service team to constantly improve the customer experience. <p>We will investigate renewable cooling as a service as Notting Dale Heat physically expands.</p>
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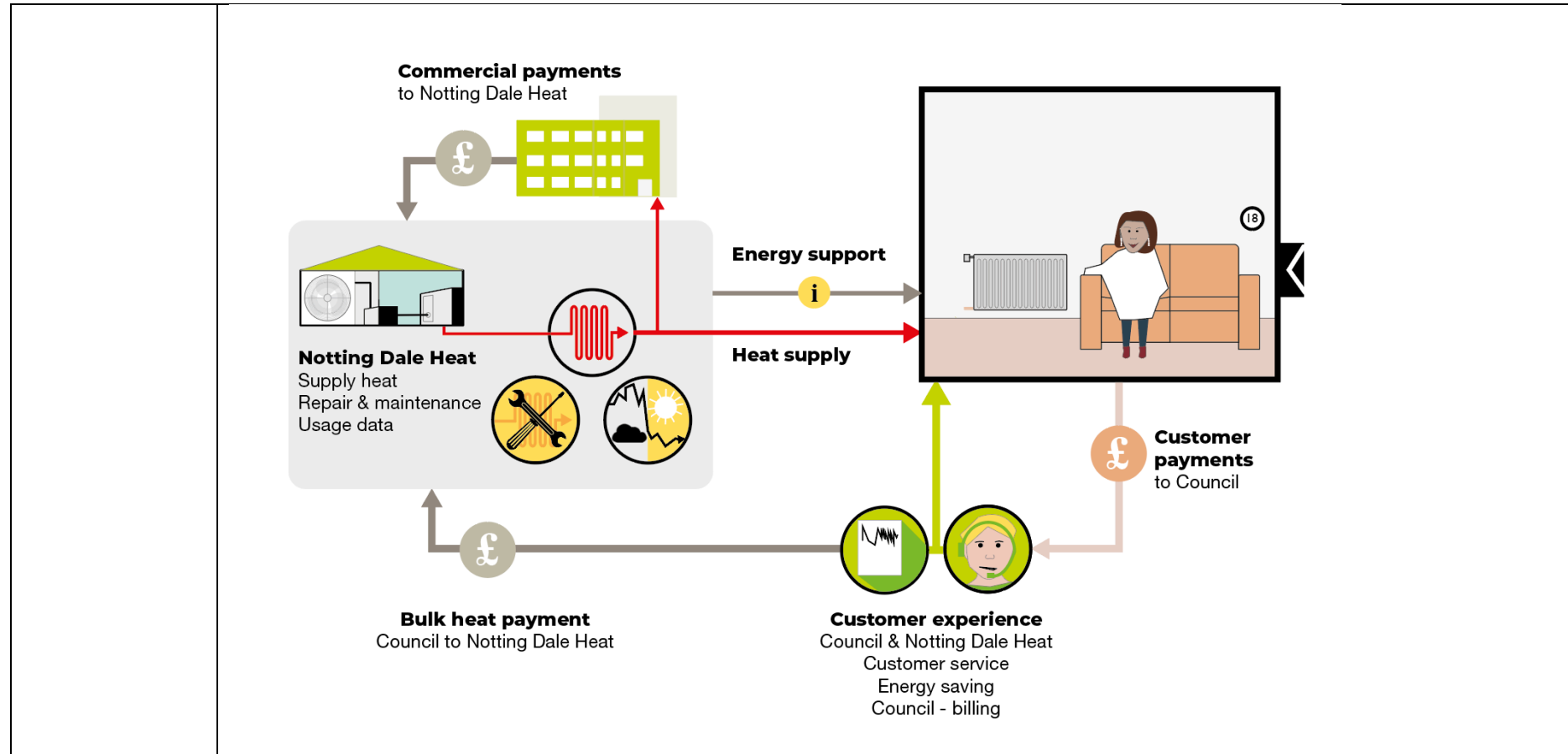
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	<p>For completeness of information, the Council will continue to manage cash collection, financial inclusion and debt management.</p> <p>The Energy Billing function, software and associated data analysis could be done in-house either by the Council, the Lancaster West Neighbourhood Team, Notting Dale Heat or a heat network contractor. This decision will be taken later in 2022. The cost for this function has been allocated within the heat network's financial model.</p> <p>White labelling requires consideration as part of the energy billing options – the key benefit being that whichever option is chosen, residents receive their bill from their renewable heating and hot water energy supplier. This would help ensure resident buy-in and helps make it clear that Notting Dale Heat is their renewable heating and hot water supplier.</p> <p>The allocations of responsibility between the Council and Notting Dale Heat are shown in the Business Model and Contract Arrangements below:</p>
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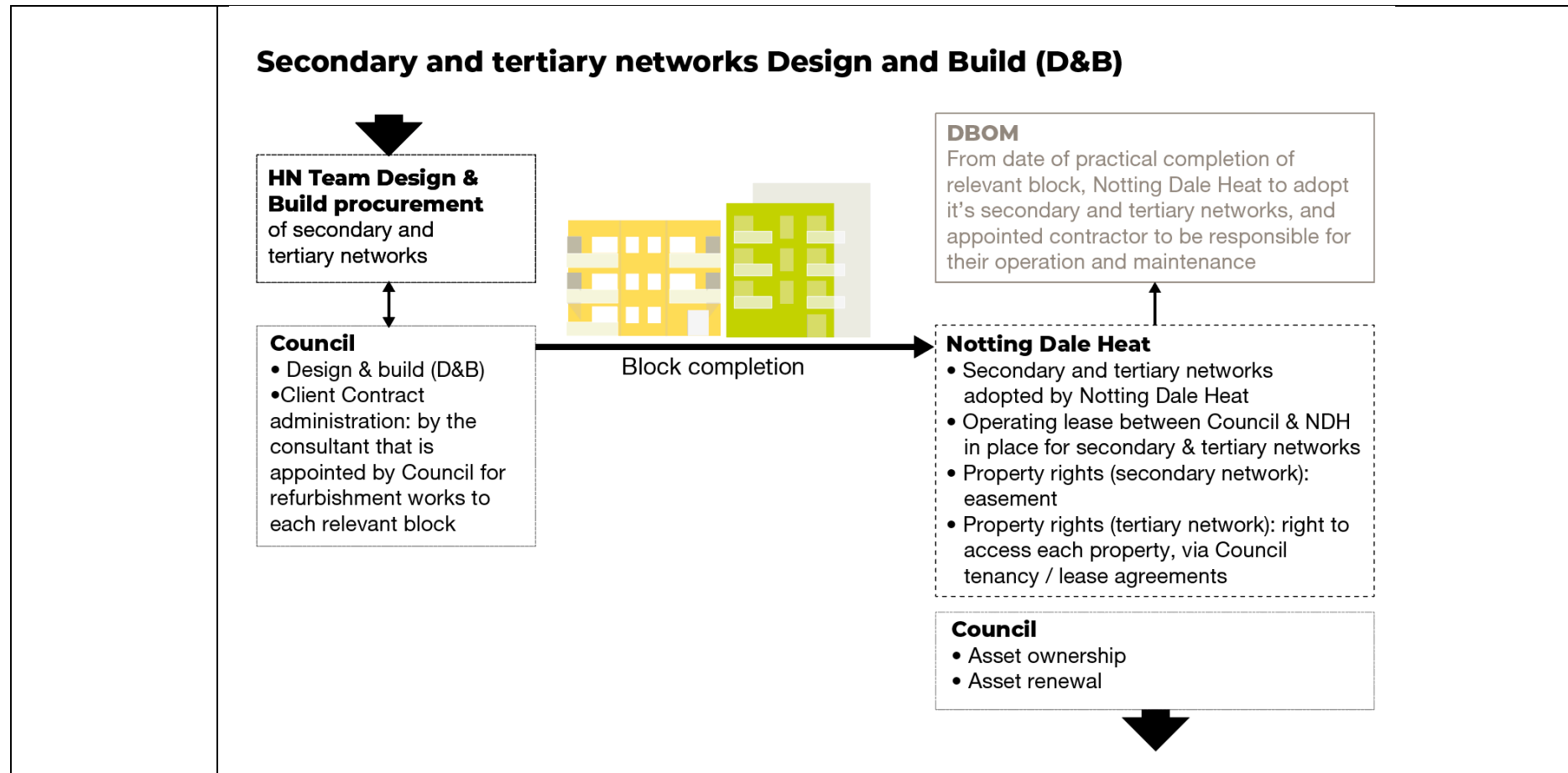
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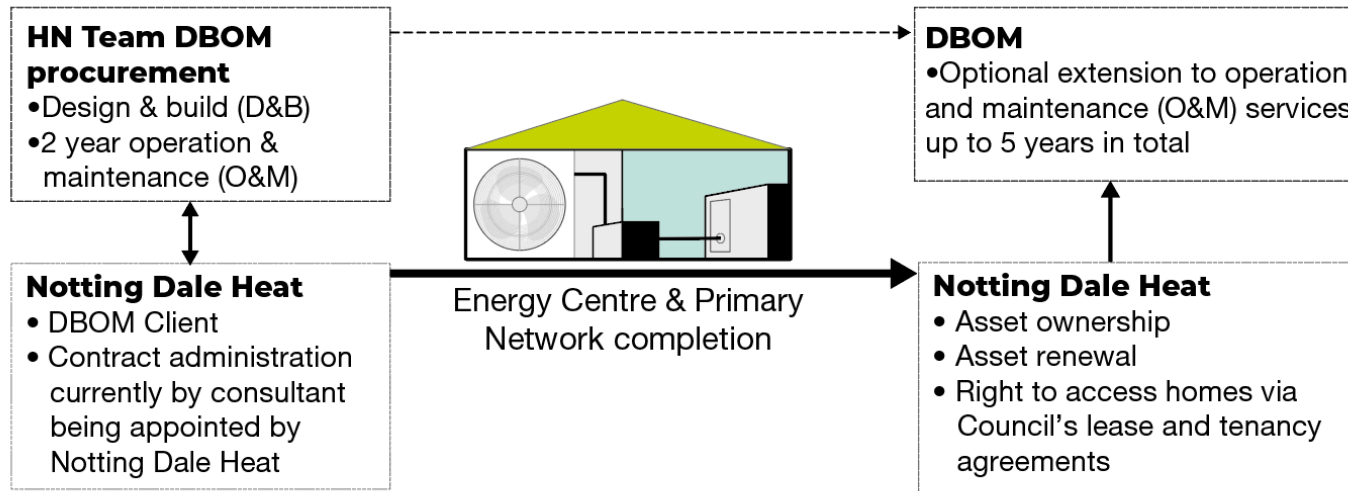


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Energy centre & primary network
Design Build Operation and Maintenance (DBOM)



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6. Strengths, Weaknesses, Opportunities and Threats

<p>Strengths</p> <ul style="list-style-type: none"> • Vision and Objectives: the company stands out from the competition, genuinely putting customers first. • Established and stable customer base: already exists for Phase 1 • Experienced heat network delivery team: our team has worked on many of the UK's most successful heat network projects, creating the commercial opportunity for Notting Dale Heat to rapidly expand on the back of an excellent customer experience at LancWest. • Significant decarbonisation: delivering zero-carbon heat from first 'Heat On' puts the company at the forefront of delivering Government objectives. This '100% renewable heat network + deep retrofit' model can be rolled out to help the borough and other UK cities decarbonise. • Funding plan is well advanced: HRA funding for Phase 1 refurbishment has been obtained, as has 'in principle' commitment to corporate funding. £1.16 million grant from central government already confirmed. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Phase 1: the sensitivities of previous customer service culture • Heat network operation: not core business for the Council • The Council has limited experience of owning and operating companies
<p>Opportunities</p> <ul style="list-style-type: none"> • Rising gas prices: this makes moving to a zero-carbon heat network more attractive to potential customers • Forthcoming legislation: Notting Dale Heat has been designed to be future-proofed for regulation, helping set the standard for excellent customer experience • Heat network expansion into Notting Dale ward: we are developing the business case for Phase 2, with the opportunity to quickly double the size of the core scheme at LancWest • Significant other expansion opportunities: World's End Estate (Council), Kensal Canalside, Earl's Court, White City, and Old Oak and Park Royal. A project to explore opportunities with the neighbouring borough of Hammersmith and Fulham is already underway • Listed buildings: heat networks provide the only realistic option for decarbonising Kensington and Chelsea's many listed buildings, where individual Air Source Heat Pumps would be unsightly 	<p>Threats</p> <ul style="list-style-type: none"> • Loosing resident buy-in due to level of disruption • Grid constraints: extra costs of grid reinforcement of electrifying heat • Ensuring statutory compliance: business law, subsidy control, data protection, environmental legislation & heat network regulation • The cost of electricity rises significantly above general inflation: puts pressure on the business model • Expansion is sought too quickly: overstretches the company • Expansion requires significant additional funding commitment from the Council: there are financial pressures on the Council's capital programme.

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7. FINANCIAL PLAN

3-Year Medium Term Financial Strategy	<p>The company will be growing from a standing start over the next 3 years. The focus, as with any start-up businesses, will be cash management. Revenues will not be generated until first heat is supplied in 2024. Until that time outgoings will be largely relating to capital spend. These costs, plus some costs relating to the set-up and initial operation of the business, are to be funded by a combination of Government grant monies (already received by the Council on behalf of the company), Council equity investment and long-term loans, and at the end of the period through HRA Connection Charges. This gives the company the comfort that funding sources are robust (subject to Final Investment Decision from the Council).</p> <p>In addition, day-to-day working capital needs and any reasonable cash shortages, for example arising from delay in heat supply, will be met through a commercial Working Capital Facility to be provided by the Council. This will allow the company to remain cash positive in early years and create a platform for a financially sustainable business over the long-term. This financial sustainability is aided by prudent revenue and cost assumptions, robust systems and financial reporting to allow effective financial decision making.</p>
Capital Funding Strategy	<p>Sources and use of capital funding</p> <p>As the sources and uses table shows the estimated capital costs of funding the development of the Phase 1 primary heat network and energy centre is £10.9m.</p> <p>Funding is from a mixture of sources.</p> <ul style="list-style-type: none"> ○ £1.116m HNIP grant has already been committed by BEIS. ○ Council funding (loans and equity) from the General Fund will be on a commercial (Subsidy Control compliant) basis. ○ To meet cashflow timing, a Bridging Loan ahead of HRA resident connection charges being received. <p>The capital cost of the secondary and tertiary heat networks is estimated to be a further £12m, which will be funded by the HRA and the Council's Refurbishment Programme. Although this heat network cost sits outside of Notting Dale Heat's Business Plan, it forms part of the wider Business Case for the heat network and Final Investment Decision.</p> <p>The capital cost estimates have significant contingency built in to cover inflationary pressures, and under normal circumstances would be considered a robust estimate at this stage recognising the procurement of the D&B contractor is yet to take place. However, there continues to be no slow-down in inflation and there remains huge pressure on supply chains globally.</p>

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	<p>Consequently, additional CapEx sensitivity analysis indicates that there is the potential for the company to manage further capital cost increases particularly where the repayment profile of Council loans could be adjusted.</p> <table border="1"> <thead> <tr> <th></th><th>Total</th><th>To end 03/24</th><th>2024/25</th><th>2025/26</th><th>2026/27</th><th>2027/28</th></tr> </thead> <tbody> <tr> <td>Funding</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr> <td>HNIP Grant</td><td>1.1</td><td>1.1</td><td></td><td></td><td></td><td></td></tr> <tr> <td>Council Equity</td><td>0.6</td><td>0.6</td><td></td><td></td><td></td><td></td></tr> <tr> <td>Council Loan</td><td>5.3</td><td>5.3</td><td></td><td></td><td></td><td></td></tr> <tr> <td>Bridging Loan</td><td>3.0</td><td>3.0</td><td></td><td></td><td></td><td></td></tr> <tr> <td>HRA Resident Connection Charges</td><td>4.5</td><td>1.5</td><td>3.0</td><td></td><td></td><td></td></tr> <tr> <td>Total</td><td>14.5</td><td>11.5</td><td>3.0</td><td>0.0</td><td>0.0</td><td>0.0</td></tr> <tr> <td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr> <td>Uses</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr> <td>Capital Expenditure</td><td>10.9</td><td>10.9</td><td></td><td></td><td></td><td></td></tr> <tr> <td>Bridging Loan repayment</td><td>3.0</td><td></td><td></td><td></td><td></td><td>3.0</td></tr> <tr> <td>Net operating cashflow</td><td>0.6</td><td>0.3</td><td></td><td>0.3</td><td></td><td></td></tr> <tr> <td>Total</td><td>14.5</td><td>11.2</td><td>0.3</td><td>0.0</td><td>0.0</td><td>3.0</td></tr> </tbody> </table> <p>Strategy for funding future network expansion</p> <p>The strategy is to maximise available Government and local grants and low-cost funding. In addition we will explore other options such as crowd funding, which are now more commonplace for zero-carbon public infrastructure. These forms of funding will continue to need to be supported by Council loan and possibly equity funding (all on commercial terms), at least in the short-term, until the company is established enough to be able to borrow on reasonable terms as its credit rating develops.</p>							Total	To end 03/24	2024/25	2025/26	2026/27	2027/28	Funding							HNIP Grant	1.1	1.1					Council Equity	0.6	0.6					Council Loan	5.3	5.3					Bridging Loan	3.0	3.0					HRA Resident Connection Charges	4.5	1.5	3.0				Total	14.5	11.5	3.0	0.0	0.0	0.0								Uses							Capital Expenditure	10.9	10.9					Bridging Loan repayment	3.0					3.0	Net operating cashflow	0.6	0.3		0.3			Total	14.5	11.2	0.3	0.0	0.0	3.0
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Forecast revenues	<p>Revenues are forecast to come from the delivery of two business area:</p> <ol style="list-style-type: none"> 1) Heat sales and related maintenance services to customers 2) Developing new heat network opportunities to support the Council's zero-carbon targets for its own properties, the wider Borough and beyond. The revenues for this will come from local and national funding sources. 																																																																																																							

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As the details of the latter are still being developed the revenues and costs of this activity are excluded from this initial business plan. However, the activity will be undertaken on the basis that it is cost neutral to the company.

Heat Sales Revenue

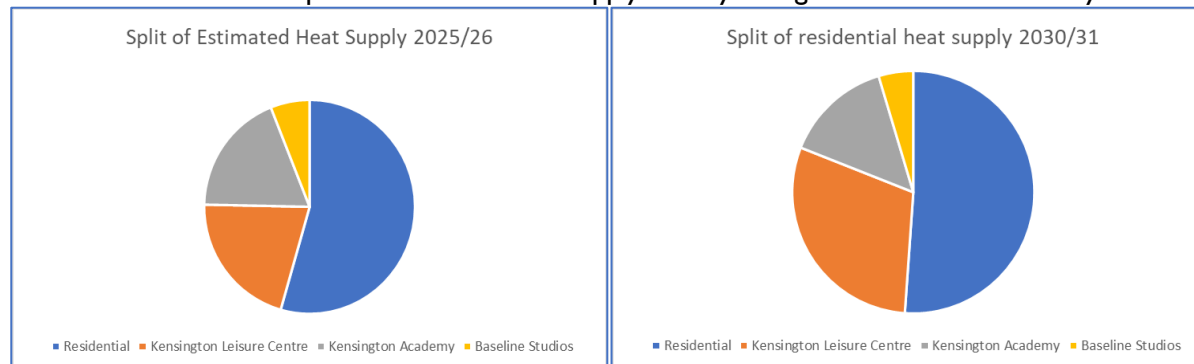
The table below shows the forecast heat sales for the first years of operation from Phase I.

<i>Figs in £m</i>	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Heat sales	0.66	0.69	0.80	0.81	0.83	0.92	1.39
Secondary and Tertiary maintenance	0.06	0.11	0.12	0.13	0.13	0.14	0.15
Total revenue (excl connection fees)	0.72	0.80	0.92	0.94	0.96	1.06	1.54

Assumed Heat Connections for the core scheme:

- Residential connections happen on a phased basis commencing in 2024 with full connection in 2030:
 - Initial heat requirement is 1,442 MWh p.a. rising to 3,131 MWh p.a.
 - 80% demand is assumed reflecting a combination of take up and void properties
- Kensington Leisure Centre to connect in 2024 for top-up heat of an estimated 986 MWh p.a., with full heat provision of around 1,830 MWh p.a. from 2030
- Kensington Aldridge Academy to connect in 2024 with an annual heat demand estimated at 881 MWh p.a.
- Baseline Studios to connect in 2024 with an annual heat demand estimated at 283 MWh p.a.

The chart below shows the split of estimated heat supply as they change over the first five full years of operation.



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Heat Tariffs	<p><i>This section is subject to the finalisation of Heat Supply Agreements with individual customers. Actual tariffs will be set at this point.</i></p> <p><i>Connection Charges</i> will be set to cover the capital cost of connection to pay for the secondary and tertiary network. A balance will need to be struck between leaseholder responsibilities and the Council's target to create a carbon neutral Lancaster West Estate by 2030. The energy centres and primary network are funded by the Housing Revenue Account and a successful £1.116m Heat Network Investment Project grant.</p> <p>All customers will be charged both a fixed tariff (Standing Charge) and a variable tariff (Variable Charge). In addition residential customers will be charged a maintenance service fee, to cover the cost of Notting Dale Heat maintaining the tertiary heating systems within their homes.</p> <p>The <i>Standing Charge</i> is intended to cover the fixed operating costs of the company (OpEx and RepEx). Individual customer's share of the Standing Charge should reduce over time as we expand and fixed costs are able to be spread across a larger customer base. The charge to customers will roughly reflect a proportionate share of costs based on expected heat demand at the outset. It will be a £/ day charge invoiced monthly. It is intended that the tariff will increase annually in line with the CPI index.</p> <p>The <i>Variable Charge</i> is intended to cover the marginal costs of providing heat and the fuel cost, which is mainly the electricity cost of powering the Air Source Heat Pump. It will be p/kWh and be in line with comparable gas costs at the date of connection. It is intended that the tariff will increase annually by the CPI index, albeit where electricity costs spike significantly above CPI, there may be a requirement to pass this on as the company has very limited control over this cost.</p>
Heat Charging Process	<p>The charging for heat will be as follows:</p> <ul style="list-style-type: none"> • Heat charges for leaseholder and tenant customers on the Lancaster West Estate will be made via a Bulk Heat Supply Agreement with the Council's Housing Revenue Account (HRA). Charges will be invoiced monthly. The HRA will pass charges onto individual residents via the relevant service charge and rent arrangements. This is intended to reflect as much as possible the existing approach to charging for residents (albeit this will be a metered supply), with the benefit that it de-risks energy payments for the company. • Charges for freehold residential customers will be invoiced directly on a monthly basis. • Commercial customers will be invoiced directly on a monthly basis

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	By 2030/31 the initial core scheme will be fully operational and heat supply at its forecast maximum. This excludes any expansion of the network that is programmed to happen in this period. If Phase 2 build out also happens by 2030, which is likely, this could double the size of the heat supply and therefore double the value of the estimated turnover to £3m/year.														
Forecast Costs	<p>As the graph below for the 2025/26 financial year shows, the main cost of the company is the purchase of electricity. The company will look to manage costs by forward buying and utilising corporate buying power. Whether this is through the Council's buying power or through the company's DBOM contractor, will be the subject of a future assessment.</p> <div data-bbox="515 549 1321 1038" data-label="Figure"> <p>Split of operating costs - first full year of operation</p> <table border="1"> <thead> <tr> <th>Cost Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Electricity purchase</td> <td>42%</td> </tr> <tr> <td>Company costs</td> <td>33%</td> </tr> <tr> <td>Secondary and Tertiary maintenance costs</td> <td>12%</td> </tr> <tr> <td>Primary system maintenance</td> <td>8%</td> </tr> <tr> <td>Metering and billing</td> <td>4%</td> </tr> <tr> <td>Other Opex</td> <td>1%</td> </tr> </tbody> </table> </div> <p>The costs of operating the company are a relatively high proportion as the core scheme is quite small. The robust governance arrangements aim to ensure a high level of service performance and customer satisfaction, to drive the expansion of the business. The latter will then allow the company to spread these fixed costs between a greater customer basis. One of the company costs is insurance, the details of which are included in Appendix 6.</p> <p>There is no replacement expenditure assumed in this 3-year business plan period as the system is all new. The model is based upon taking out funding for RepEx as required at the time. Debt service costs and costs of working capital are factored in.</p>	Cost Category	Percentage	Electricity purchase	42%	Company costs	33%	Secondary and Tertiary maintenance costs	12%	Primary system maintenance	8%	Metering and billing	4%	Other Opex	1%
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Forecast cash position	Key to the company being able to establish itself in the early years is managing its cash position. It will do this with the support of a Working Capital Facility from the Council. The table below shows the forecast net cash positions from operations in the														

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	first five years, ahead of calling on the working capital facility. The table also shows the working capital facility requirements declining and that by 2037/38 the facility will be fully repaid and the company being cash positive based on trading operations alone.								
	<i>Figs in £m</i>	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30		
	Net cash before use of working capital facility	2.69	2.63	2.37	(0.91)	(1.10)	(1.32)		
	<i>Figs in £m</i>	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2033/34	2037/38
	Net cash before use of working capital facility	2.69	2.63	2.37	(0.91)	(1.10)	(1.32)	(0.81)	0.05
	The call on the Working Capital Facility is forecast to be at its peak in 2029/30 and 7 years later, is estimated not to be needed and fully repaid, assuming no expansion. However, the intention is that there will be some headroom in the Working Capital Facility above this peak, to allow for any contingency requirements. With expansion the time horizon to remove the need for working capital support will be reduced. The interest on the Working Capital Facility in the period to 2030 is estimated to be £20k.								
Forecast profit and loss position	<ul style="list-style-type: none"> There is an annual deficit forecast to be made until 2033/34, without expansion beyond Phase I. A sustained profitability position is not forecast to be made until 2033/34 without expansion beyond Phase I. All 'in-year profit' is used to repay the cost of borrowing from the Council to ensure Subsidy Control compliance. Annual profits are forecast to grow from 2033/34 onwards. Dividends to the Council, as sole shareholder, are not forecast to be payable until 2039/40. The forecast overall profit and loss for the first seven years of operation is shown in the table below. 								
	<i>Figs in £m</i>	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2033/34
	Retained profit before dividends	2.32	(0.77)	(0.64)	(0.61)	(0.48)	(0.47)	(0.11)	0.01
	Dividends Paid	-	-	-	-	-	-	-	-
	Retained profit after dividends	2.32	(0.77)	(0.64)	(0.61)	(0.48)	(0.47)	(0.11)	0.01
	The high level of 'profit' in the first year of operation is driven by the receipt of Connection Fees from residential connections and payable by the Council's HRA. This is used to help repay the cost of borrowing.								

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Financial reporting	<p>CONSTRUCTION PHASE</p> <ul style="list-style-type: none"> The company will prepare monthly management accounts for the Board and Council's Finance Team that include: <ul style="list-style-type: none"> Capital Expenditure in month and to date Balance Sheet Bank balance and Cashflow forecast Funding stream drawdown <p>OPERATIONAL PHASE</p> <ul style="list-style-type: none"> The company will prepare monthly management accounts for the Board and Council's Finance Team that include: <ul style="list-style-type: none"> Narrative of the accounts Profit and loss: actual v budget Profit and Loss: actual v prior year Profit and Loss: forecast for year Balance Sheet Balance Sheet Reconciliations with Fixed assets, Debtors, Creditors and Bank Working Capital Summary Cashflow Forecast <p>Budgets will be prepared on an annual basis for the following two years, adding to the current year's forecast:</p> <ul style="list-style-type: none"> They will include reporting of monthly management accounts which are provided to the Council will ensure transparency and good financial management. They will also consider the utilisation of any surplus funds. The company will use its own accountancy system, which will be a cloud version of Xero to allow easy access to directors and authorised parties. The company will be audited externally to ensure that the visibility and appropriate use of public funds is assured. The auditors will also prepare tax returns and provide tax advice where required.
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	<ul style="list-style-type: none">• The company will bank with NatWest, which is the Council's banker, to provide ease of funds transfer and make best use of the existing relationship.• A Financial Policy will be drawn up addressing areas including but not limited to:<ul style="list-style-type: none">○ Bank payment authorisation limits○ Petty cash management○ Cyclical Replacement Provision○ Surplus Funds Utilisation○ Emergency Reserve values○ Energy Procurement Strategy
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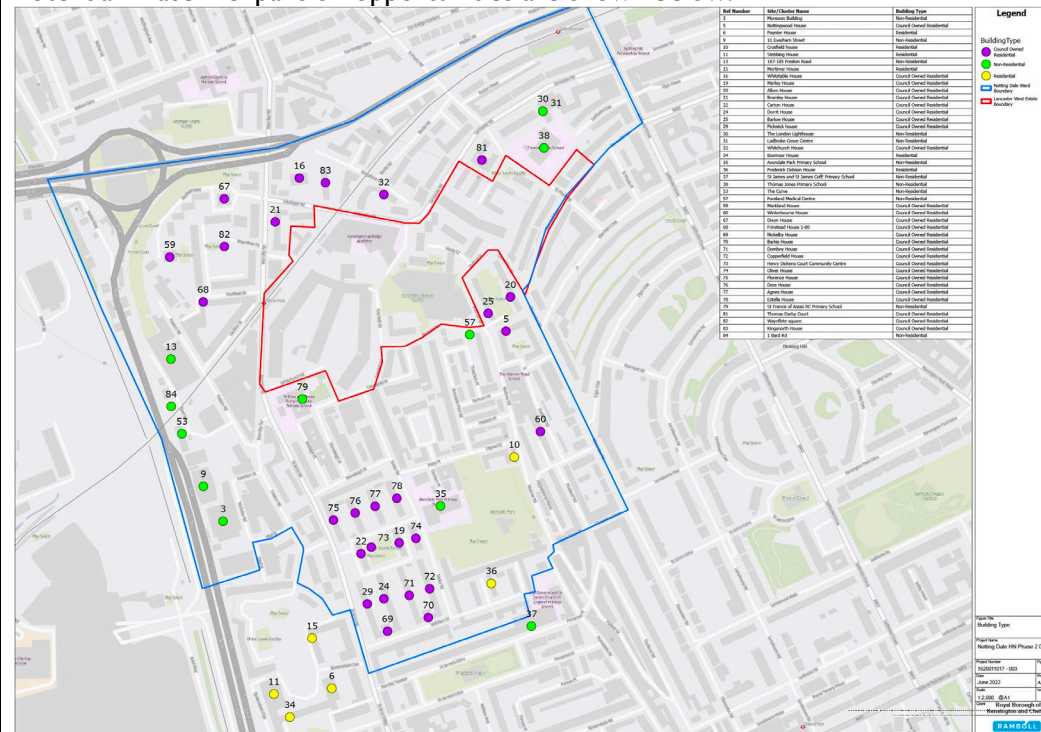
8. BUSINESS DEVELOPMENT & INVESTMENT STRATEGY

Business development targets and priorities

By proving the delivery model at LancWest (**Phase I**) and delivering an excellent customer experience, the company is well poised to use it as a launchpad for future expansion. This will protect all of Notting Dale Heat's customers from rising energy prices and support the Council to achieve carbon neutrality for the borough by 2040.

- **Phase 2, Notting Dale ward:** expansion of the Phase I heat network at LancWest into the wider Notting Dale ward, which is a priority area for expansion.

Potential Phase 2 expansion opportunities are shown below:



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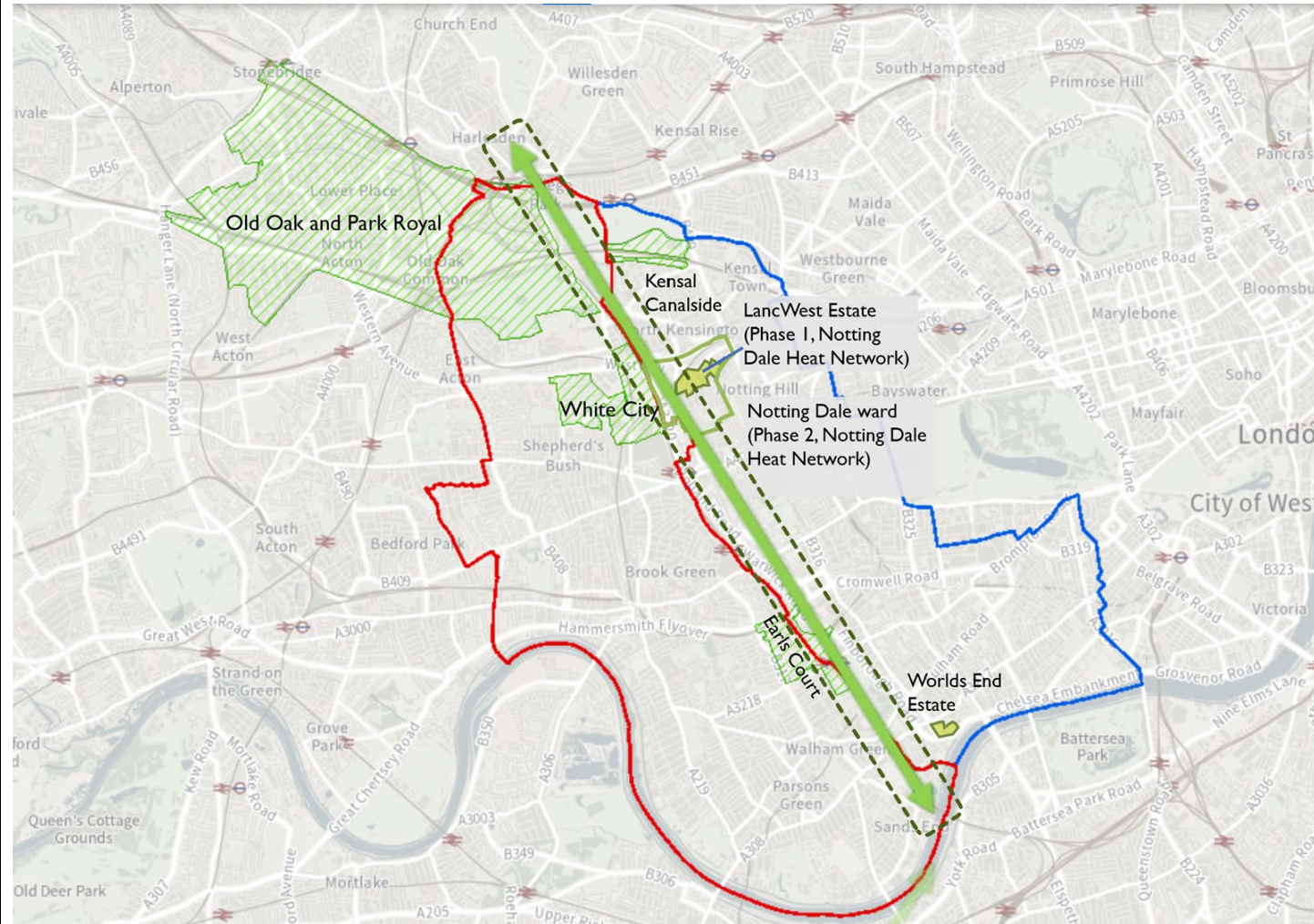
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	<ul style="list-style-type: none"> ○ Phase 3, World's End Estate: the heat network team is already in active dialogue with the Council's Housing team regarding World's End Estate, where there is a 1970s heat network that is end-of-life and needs replacing. The Council is landlord, as at LancWest. ○ Phase 4, Kensal Canalside Opportunity Area: the heat network team is already in active dialogue with the Council's Planning and Property teams regarding Kensal Canalside Opportunity Area about the site-wide heat network opportunity. A meeting will be scheduled with the developers. One option worth considering is bulk heat supply to gain commercial revenues, helping to subsidise social housing connections and tariff. ○ Phase 5, Earl's Court Opportunity Area: the heat network team is already in active dialogue with the Council's Planning and Property teams regarding Earl's Court Opportunity Area, where initial dialogue has started with the Earl's Court Development Corporation (the master developer) about the site-wide heat network opportunity. Again an option worth considering is the interconnection of different heat networks, using commercial site-wide connections to help fund social housing connections and tariff. <p>These are the currently known heat network expansion opportunities. However, this is not the limit of our ambition. Notting Dale Heat will constantly seek other opportunities for expansion, which will be supported by the Cross Borough Energy Masterplan and its evidence base.</p> <p>The following map shows the scale of the opportunity and our ambition, with the potential for Notting Dale Heat to develop one or more Green Heat Network Fund bids, with the ambition of thinking big and making the most of this significant capital grant funding opportunity, with up to £270 million available across the UK. 100% Commercialisation funding is available, together with up to 49% of CapEx for construction costs. The Green Heat Network Fund needs to be spent by the end of March 2025, which is not long in heat network terms.</p> <p>We will consider the opportunity to develop a strategic Green Heat Network Fund bid(s) for a Green Heat Network Main, depending on the results of the Cross Borough Energy Masterplan. With so many heat network opportunities already identified in green, it is possible that a Business Case could be developed for a Green Heat Network Main, which potentially runs north south along part or all of the borough boundary between Kensington and Chelsea, and the neighbouring borough of Hammersmith and Fulham.</p> <p>This Green Heat Network Main could join together two or more Phases, enabling further network efficiencies and delivery of the company's objectives. Any such strategic Green Heat Network Fund bid would also complement any similar bid from Old Oak</p>
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and Park Royal Development Corporation for a heat network that extends outside of OPDC, possibly to Hammersmith Hospital and Wormwood Scrubs, just 700 meters from the Borough boundary.



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	<p>It is the responsibility of the company, working with the Council, to enable and potentially deliver some/all of these heat network opportunities. To do this, the company needs the resource identified in Section 11, in addition to running the core business of ensuring an excellent customer experience at LancWest (Phase 1).</p> <p>We intend to build up the employed team of the company to support business development activities. These internal roles will be supported by technical financial, commercial, procurement and legal support through external consultancy companies. This enabling resource will be funded by the Council, supported by match-funding in a similar way to Phase 1, sourcing funding from government, the GLA and potentially other funders. The Council will ultimately need to take the decision to fund the balance, as it has with Phase 1 at LancWest.</p> <p>The company will not engage any of this resource until it has certainty of funding being available. Each expansion opportunity will be subject to its own Business Case and decision (for both the company and Council), which will list all risks and opportunities for the company and the Council. In this regard, it is worth noting the track record and experience of Kensington and Chelsea's heat network team in bidding. Examples of successful bids include:</p> <ul style="list-style-type: none"> • £230k HNDU match-funding to help deliver the Outline Business Case for Phase 2 expansion • £150k funding from the GLA's Local Energy Accelerator for the Cross Borough Energy Masterplan • £1.116 million for the UK government's Heat Network Investment Project (HNIP), which is the precursor to the government's Green Heat Network Fund <p>The company is the perfect delivery vehicle to help support the Council to meet its business development ambitions, procuring specialist consultancy advisors as is required. Having proved the model at LancWest, it will be more cost effective to do it again, especially if we progress multiple phases at once.</p> <p>To be able to deliver these Business Development objectives, and to gain strategic first mover advantage ahead of likely 'Heat Zoning' in the borough, it is recommended that we also develop Heat Network guidance to support the Council's Planning Policy and ensure that new developments and existing buildings that are replacing their heating systems, are future-proofed for heat network connection.</p>
What success will look like	<p>The following Sales Targets have been set to measure the success of the company's Business Development Strategy, and to help manage expectations as to the size of the decarbonisation challenge and opportunity at a borough level.</p>

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	<p>Thermal efficiency targets for buildings that Notting Dale Heat connects to:</p> <ul style="list-style-type: none"> Existing homes: number that form part of an energy retrofit that achieve EPC C rating or above Existing commercial buildings: number that form part of an energy retrofit or already classed as BREAAAM 'Excellent' New build homes: number that achieve carbon neutrality New commercial buildings: number that achieve carbon neutrality and/or BREEAM 'Excellent' <p>By the end of Year 3 of this Business Plan, we will have delivered 90% of Phase I. This will represent:</p> <ul style="list-style-type: none"> 10% of Council Housing stock by March 2026 (8,000 homes) y% of Corporate Property stock by March 2026 (650 properties) [Floor areas?] <p>However, the reason we are looking to expand is that this only represents:</p> <ul style="list-style-type: none"> 1% of the Borough's 78,000 homes based on the 2011 Census (800 homes in Phase I) x% of the Borough's x sqm commercial buildings by March 2026 (Kensington Aldridge Academy, Kensington Leisure Centre and Baseline Studios) <p>This is why Notting Dale Heat has the ambition to quickly expand.</p>
<p>Decision Tree flowchart (create flow chart for Notting Dale Heat)</p>	<p>This is the process for dealing with new connection opportunities, which are likely to arise as we gain momentum. The decision on whether to progress each potential opportunity beyond exploratory discussions as a Board item, depends upon how likely the opportunity is to deliver:</p> <ol style="list-style-type: none"> 1) Vision 2) Objectives 3) Expansion Opportunity (standalone or addition to existing network) 4) Consider social value of heat networks – it's not just about financial returns

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9. ENGAGEMENT, COMMUNICATIONS & MARKETING STRATEGY

Notting Dale Heat's culture and approach to communications	<div><div>1. Putting customers first: we value transparency and simplicity in communications</div><div>2. Be proactive: to build positive and respectful relationships with customers and stakeholders</div><div>3. Learning together: content should be informative, helpful and react to current circumstances</div></div>																									
Communication Strategy	<table><tr><th>Theme and Stakeholders</th><th colspan="4">Communication objectives Year 0 - Year 3</th></tr><tr><td>"Putting customers first" Customers Future customers Strategic partner (LWNT)</td><td></td><td>Objective 3 Lead engagement with first customers and future heating handover via LWNT.</td><td>Objective 5 Co-production, customer feedback and engagement methods are launched.</td><td>Objective 8 Learning together, share Y1 customer experience results and NDH response to co-production.</td></tr><tr><td>"Supporting community, reducing carbon" Customers Future customers (commercial) Public</td><td>Objective 1 Brand and website development for Notting Dale Heat.</td><td>Objective 4 Company launch and vision sharing event or workshops.</td><td>Objective 6 Raise awareness of Notting Dale heat in ward and RBKC.</td><td>Objective 9 Raise awareness of NDH nationally.</td></tr><tr><td>"Learning together" Industry and supply chain Suppliers and contractors Strategic partner (RBKC) Strategic development partners Funders</td><td>Objective 2 Establish an positive awareness of Notting Dale Heat. Share our development news.</td><td></td><td>Objective 7 Celebrate our 'heat on' success with workshops and site visits.</td><td></td></tr><tr><td></td><td>Year 0</td><td>Year 1</td><td>Year 2</td><td>Year 3</td></tr></table>	Theme and Stakeholders	Communication objectives Year 0 - Year 3				"Putting customers first" Customers Future customers Strategic partner (LWNT)		Objective 3 Lead engagement with first customers and future heating handover via LWNT.	Objective 5 Co-production, customer feedback and engagement methods are launched.	Objective 8 Learning together, share Y1 customer experience results and NDH response to co-production.	"Supporting community, reducing carbon" Customers Future customers (commercial) Public	Objective 1 Brand and website development for Notting Dale Heat.	Objective 4 Company launch and vision sharing event or workshops.	Objective 6 Raise awareness of Notting Dale heat in ward and RBKC.	Objective 9 Raise awareness of NDH nationally.	"Learning together" Industry and supply chain Suppliers and contractors Strategic partner (RBKC) Strategic development partners Funders	Objective 2 Establish an positive awareness of Notting Dale Heat. Share our development news.		Objective 7 Celebrate our 'heat on' success with workshops and site visits.			Year 0	Year 1	Year 2	Year 3
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"Putting customers first" Customers Future customers Strategic partner (LWNT)		Objective 3 Lead engagement with first customers and future heating handover via LWNT.	Objective 5 Co-production, customer feedback and engagement methods are launched.	Objective 8 Learning together, share Y1 customer experience results and NDH response to co-production.																						
"Supporting community, reducing carbon" Customers Future customers (commercial) Public	Objective 1 Brand and website development for Notting Dale Heat.	Objective 4 Company launch and vision sharing event or workshops.	Objective 6 Raise awareness of Notting Dale heat in ward and RBKC.	Objective 9 Raise awareness of NDH nationally.																						
"Learning together" Industry and supply chain Suppliers and contractors Strategic partner (RBKC) Strategic development partners Funders	Objective 2 Establish an positive awareness of Notting Dale Heat. Share our development news.		Objective 7 Celebrate our 'heat on' success with workshops and site visits.																							
	Year 0	Year 1	Year 2	Year 3																						

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Notting Dale Heat Network Ltd

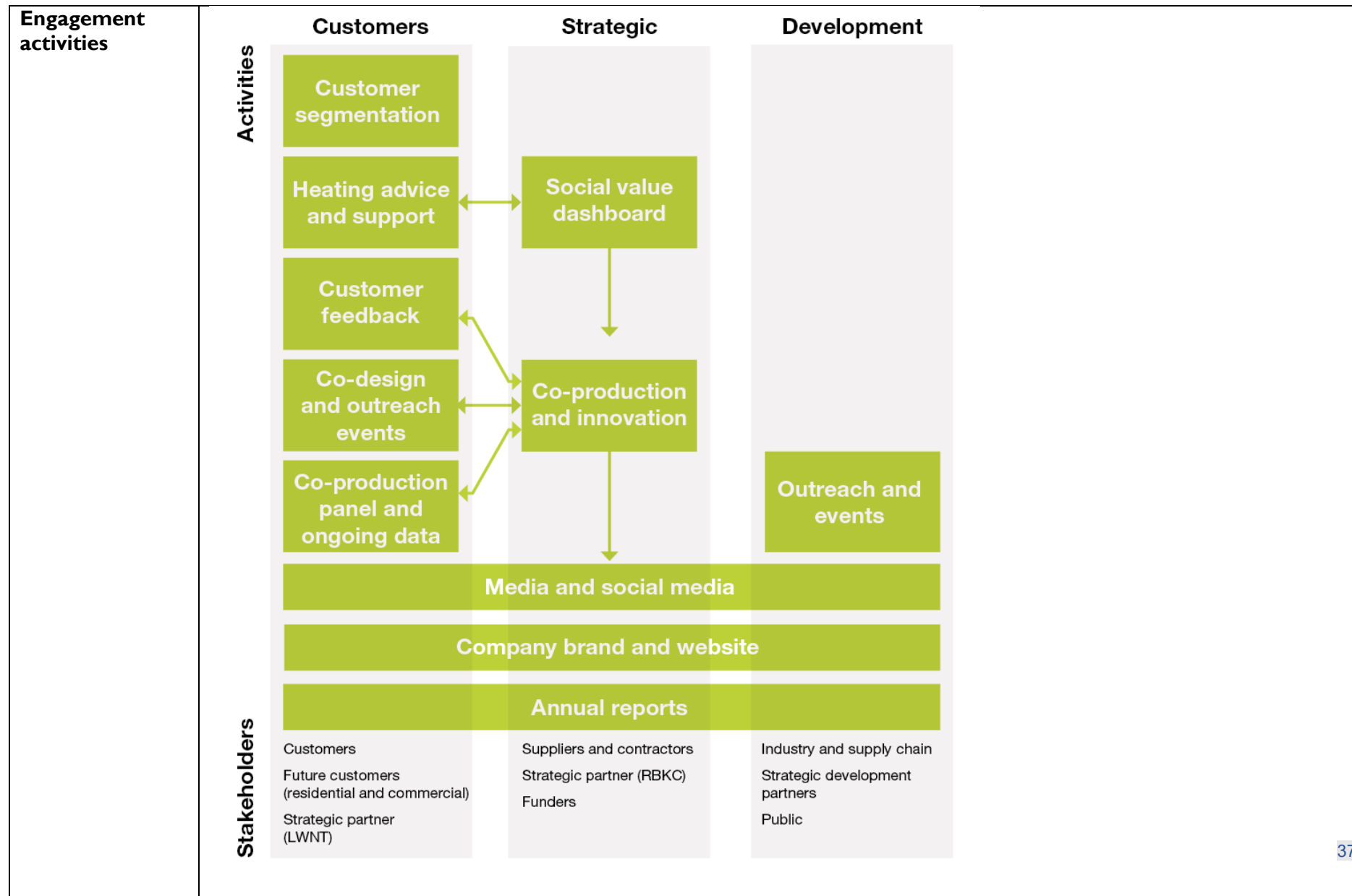
April 2023 to March 2026

Key messages	Key messages align to the company culture themes and company vision:	
	Theme	Key messages
	Safety	Maximise resident and worker safety
	Quality	Renewable and reliable heat network
		High-quality heating and excellent customer service co-produced with residents
		A heat network co-designed with customers
		Learning from others, including our customers
	Sustainability	100% renewable heating.
		Supporting our community to reduce carbon
	Value for money	We provide heat that is more affordable than the alternatives
		An energy company with a difference, helping you save energy, and money

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Customer Strategy	<ol style="list-style-type: none"> 1. Develop an in-depth understanding of our customers and their needs through co-design, co-production and customer segmentation. 2. Co-design any significant changes and developments of Notting Dale Heat network with customers 3. Co-produce services with customers, through engagement, focus groups, surveys and informal feedback 			
	Customer segment	Value proposition	Relationship	Channel
	Communal network Tenant / Leaseholder	<p>Improve heating in your home.</p> <p>Gain heat controls all year round.</p>	Relationship managed by LancWest Neighbourhood Team. Notting Dale Heat could have some presence through customer charter, annual survey etc.	LancWest Neighbourhood Team – Resident Liaison officers and Resident Engagement Manager.
	Combi-boiler Tenant / Leaseholder	<p>Avoid the full impact of gas price fluctuations.</p> <p>Improve local air quality locally.</p> <p>Hassle free heating, no need for a boiler and gas checks.</p> <p>Hassle free heating, no need for a boiler and gas checks.</p>	Relationship managed by LancWest Neighbourhood Team. Notting Dale Heat could have some presence through customer charter, annual survey etc.	LWNT – RLO and Resident Engagement Manager.
	Combi-boiler Freeholder	<p>Opportunity for freeholders that has arisen from the refurbishment of Lancaster West.</p> <p>Make a change now, to future-proof your home heating. Cheaper to make</p>	<p>Notting Dale Heat will be customer-facing to freeholders.</p> <p>Phase 1 only includes 16 freeholders. To deliver a net-</p>	LancWest Neighbourhood Team – Resident Liaison Officers and Resident Engagement Manager.

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		<p>connection now, than install other forms of renewable heating.</p> <p>Avoid the full impact of gas price fluctuations.</p> <p>Improve local air quality locally.</p> <p>Hassle free heating, no need for a boiler and gas checks.</p>	<p>zero carbon estate, developing an attractive offer for these and future homeowners that may connect to the heat network is needed.</p>	<p>Indirect engagement from council leaseholder and tenant neighbours.</p>
	Commercial Corporate property (RBKC)	<p>Achieve shared corporate objective to be net-zero carbon by 2030.</p> <p>Competitive or cheaper than alternative renewable heating options.</p>	<p>Essential internal partner, ongoing cooperation will benefit Notting Dale Heat and Council.</p>	<p>Direct contact and engagement via stakeholder manager / project manager (Phase 2)</p>
	Commercial Non-Council	<p>Deliver carbon sustainability goals.</p> <p>Heating is one of the biggest carbon contributors made by buildings, and most difficult to reduce. Notting Dale Heat has the solution.</p> <p>We manage and maintain your heating source, no additional contracts needed to maintain boilers etc.</p> <p>Reliable heating supplier, with a long-term investment strategy backed by the Council. We are here to stay.</p>	<p>Identification of potential commercial customers and market outreach required from Phase 2 development.</p>	<p>Direct contact and engagement via stakeholder manager / project manager (Phase 2)</p> <p>Additional investment may be required through marketing materials, local business groups, or steering groups</p>

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	Early engagement, so we can plan delivery according to the needs of your building or development.			
	High heat user (residential)	We will work with residents to help them manage their heating use.	Relationship managed by LancWest Neighbourhood Team. Notting Dale Heat could have some presence through customer charter, annual survey etc.	Energy saving service, Resident Liaison Officers via LancWest Neighbourhood Team. Customer feedback and data to develop an understanding heat network impact.
	Low heat user (residential)	On the heat network, you pay for the heat you use.	Relationship managed by LancWest Neighbourhood Team. Notting Dale Heat could have some presence through customer charter, annual survey etc.	Customer feedback and data to develop an understanding heat network impact.

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10. GOVERNANCE

How the governance arrangements work	In line with the principles of good governance, Notting Dale Heat will hold a quarterly Board meeting. In the intervening period, there will be a Shareholder Committee meeting, with a regular two-way flow of information between the company Board and Shareholder Committee. Strategic decisions will be made by the Shareholder Committee, with delegated operational decisions made by the Company Board and Managing Director in line with the legal framework of the Shareholder Agreement and Delegations Matrix. There will also be a Service Level Agreement with the Council, which again will be reviewed annually.
Ensuring the Board has the necessary skills and experience	<p>The Board Skills Matrix in Appendix 2 is an integral part of the recruitment process for the company Board, to ensure that the skills of the Directors (executive and non-executive) match the proposed business plan for the following 3 years, considers any skill gaps and sets out a strategy for filling any gaps.</p> <p>The first Skills Audit is being used to recruit a Board with the right experience, skills, qualifications and diversity. It will also be used as a tool to drive ongoing professional development of the Board. The Skills Audit will be repeated annually as part of the Business Plan update, to ensure the company Board's continued effectiveness, as the company evolves and the Notting Dale Heat Network expands. We have the opportunity to recruit up to 10 Board Members.</p> <p>Succession Planning will be used to keep the Board fresh. Board Members are appointed for 3 years, with the potential for an additional 3 years. The initial Board takes the project to 'Heat On' in 2024. Board Members are replaced on a phased basis, to ensure the continued effectiveness of the Board.</p> <p>In summer 2022, two Resident Board Members were recruited, with significant skills and experience. They provide 2 customer voices from LancWest Estate on the company Board. The Lancaster West Resident is Association is also invited to attend as an Observer. Expansion of the heat network to additional estates across the borough will require diversification of customer Board Members, to ensure that other geographical areas have a similar co-production opportunity to Lancaster West Estate.</p> <p>Recruitment will now be undertaken for two Industry Board Members. An interim Managing Director will also be appointed from 1 September 2022. After Final Investment Decision, recruitment will commence for a permanent Managing Director and an Independent Chair.</p>
What success will look like	Appendix 3 provides SMART objectives, which is how we measure the success and outputs delivered by the 'Resource' detailed in Section 10.

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11. RESOURCES

Notting Dale Heat has been designed to be high-quality and provide an excellent customer experience. The staff resources needed to design, build, operate, maintain and quickly expand a successful core scheme at LancWest will be proportionate to the growth of Notting Dale Heat. It is crucial that we do not overload the start-up company with unnecessary resource costs. Similarly, we need to make sure we have sufficient industry expertise and skills, to deliver the Business Plan objectives and an excellent customer experience.

This is why we have developed a 'Minimum Viable Product' for resources to build Phase 1 and turn Notting Dale Heat into an operational business. See Appendix 4 for a table of initial resource requirements from September 2022 through to Final Investment Decision, Year 1, plus Year 2 and 3.

Additional resource requests will be linked to successful delivery of the Business Development Strategy in Section 8, which includes maximising the amount of grant funding applications. It is likely that Leadership Team approval will be sought in March 2023 for Final Investment Decision for Phase 1, as well as additional resource and match-funding to:

- 1) Progress the 'Outline Business Case' for Phase 2 at Notting Dale ward to 'Commercialisation Stage'
- 2) Develop Feasibility Studies and Outline Business Cases for Phases 3, 4 and 5, which it is assumed the Cross Borough Energy Masterplan will identify as immediate priorities
- 3) Develop any future phases also identified by the Cross Borough Energy Masterplan

In parallel we continue to utilise permanent Council resource. This arrangement will be subject to a Service Level Agreement after Final Investment Decision, once the company is operational.

[Add company structure organogram with functions that are employed/outsourced]

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12. MANAGING RISK

A large infrastructure project such as the Notting Dale Heat Network has inherent risks. An experienced team of heat network professionals is contracted to develop the Business Case for the Notting Dale Heat Network, using HM Treasury's Green Book guidance on how to appraise policies, programme and projects. This independent methodology has ensured development of a robust business case, which will deliver against its project objectives. The Council's successful Heat Network Investment Project (HNIP) application to the UK government for £1.116m, provides external validation of a successful and robust Business Case, with appropriate risk management.

Unlike Robin Hood Energy and Bristol Energy, there is no intention to sell electricity. Notting Dale Heat only supplies renewable heat, so is not dependent on spot prices in the electricity market. We are investing in long-term infrastructure assets, where the Council is the monopoly supplier. This is why an excellent customer experience at LancWest is so important.

A comprehensive Risk Register has been developed to support and shape the Notting Dale Heat Network Programme, with appropriate mitigation employed. This Risk Register is reviewed on a monthly basis, ensuring active management and control of risks. Risks are identified and scored on a continual basis based on likelihood and impact. Mitigation is then provided and the risk is given another score, to show the current risk. It is this score which is evaluated and updated on a monthly basis, to ensure that all appropriate mitigation is provided. If a risk rating significantly changes, this becomes the focus.

Now that the company has been established, a separate company Risk Register has been developed, as shown in Appendix 5. It is recommended that these 12 strategic risks are reviewed on a monthly basis by a Risk Working Group, to ensure appropriate focus. After testing several different options, this has proved to be the most effective approach for Aberdeen Heat and Power. It is recommended that:

- The Working Group includes the Managing Director, Financial Controller, at least one company Director and the Principal Designer. The meeting needs to consider both general risks, followed by Health and Safety risks.
- Provides updates to the Company Board as a standing item.
- The company holds two Away Days each year, with the morning focussed on Risks and the afternoon focussed on Opportunities.

In addition:

- The company has procured an external financial auditor.
- We will procure a general internal auditor from the start of Year 2, who for the purposes of good governance, need to be different to the Council's internal auditors. Their role is to audit the business processes and compliance with them.
- There is also ongoing scrutiny of the company Board and the Business Plan by the Council's Shareholder Committee.
- The Council's Overview and Scrutiny Committee also has the opportunity to review the company's activities.

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APPENDIX I, EXCELLENT CUSTOMER EXPERIENCE

Defining excellent customer experience	<div><div>1. System performance: heating that customers don't have to think about. It just works.</div><div><div>a) Price: heating that is more affordable than alternative heating solutions</div><div>b) Heating Handover & ongoing support: enables customers to easily control their heating</div><div>c) Energy Advice: enabling customers to manage their heating use and energy bills</div></div><div>2. If customers have a problem:</div><div><div>a) Timely heat network call-out and repairs</div><div>b) Single point contact to deal with issues, a personal and responsible solution</div><div>c) Joined up approach with wider Council services</div></div></div>																															
What residential customer experience includes and who is responsible [cross reference with Heat Trust + Operations and Maintenance specification]	<div>Excellent customer experience combines system performance and customer service:</div> <table><tr><th rowspan="2">Excellent customer experience</th><th colspan="3">Responsibility</th></tr><tr><th>Notting Dale Heat</th><th>Council</th><th>DBOM Contractor</th></tr><tr><td colspan="4">System performance</td></tr><tr><td>Heating maintenance</td><td>Yes</td><td></td><td>Yes</td></tr><tr><td>Heating repairs</td><td>Yes</td><td></td><td>Yes</td></tr><tr><td>Heat quality</td><td>Yes</td><td></td><td>Yes</td></tr><tr><td>Heating handover & ongoing support</td><td>Yes</td><td></td><td>Yes</td></tr><tr><td>Heat pricing</td><td></td><td>Yes</td><td></td></tr></table>	Excellent customer experience	Responsibility			Notting Dale Heat	Council	DBOM Contractor	System performance				Heating maintenance	Yes		Yes	Heating repairs	Yes		Yes	Heat quality	Yes		Yes	Heating handover & ongoing support	Yes		Yes	Heat pricing		Yes	
Excellent customer experience	Responsibility																															
	Notting Dale Heat	Council	DBOM Contractor																													
System performance																																
Heating maintenance	Yes		Yes																													
Heating repairs	Yes		Yes																													
Heat quality	Yes		Yes																													
Heating handover & ongoing support	Yes		Yes																													
Heat pricing		Yes																														

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	Energy advice	Yes	Yes	
	Reporting – all items listed			Yes
	Customer service			
	Customer communications with leaseholders and tenants		Yes	
	Customer communications with commercial customers and residential freeholders	Yes		Yes
	Help desk – accessible, respectful and efficient	Yes	Yes	Yes
	Support for customers at risk of fuel poverty	Yes	Yes	Yes
	Billing to leaseholders and tenants	Yes	Yes	-
	Billing to commercial customers and residential freeholders	Yes	Yes	-
	Co-production: working with customers to review system performance, customer experience and company development	Yes	Yes	Yes
	Reporting: all items listed above	Yes	Yes	Yes
	Innovation: responding to customer experience and feedback	Yes	Yes	Yes
Measuring excellent customer experience [Review and update]	Notting Dale Heat will develop a customer experience dashboard, giving transparency to the system performance and customer experience achieved. We aim to work with the Council inform residents if there is a network performance issue, potentially before residents even notice there is an issue, thereby reducing the need for customer calls. This dashboard will be available to customers online and in an annual report.			
		System performance	Customer experience	
	Continuous measure (quarterly a minimum)			

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	Performance - First contact resolution		
	Performance - Average time resolution		
	Performance - Number, type of complaints		
	Reporting and interaction of Notting Dale Heat's Board with customers		
	KPI – Number of complaints and resolution to contractor		
	KPI – Contractor complaint report (monthly)		
	KPI – Contractor compliance with communications plan		
	KPI – Number of complaints to help desk, independent complaints handling		
	KPI – Compliance with procedures for joining and leaving network		
	KPI – Compliance with response times		
	KPI – Customer survey (no. responses target set, frequency of survey set)		
	KPI – Availability of heat supply		
	KPI – Flow and temperature to Heat Interface Unit		
	KPI – O&M communications performance		
	Customer – rating of heating quality		
	Customer – rating of hot water quality		
	Customer – rating ease of heating and hot water use		
	Customer – ease of customer service		
	Customer – quality of customer service		
	Customer – overall satisfaction / NPS		
	Annual measure		
	Customer - Net promoter score		
	Customer - effort score		
	Customer - satisfaction		
	Performance - Average time resolution		
	Performance - First contact resolution		
	Customer - Visitor intent		
	Performance - Task completion		
	Customer – feels they have influence in how Notting Dale Heat is managed		
	Customer – feels their interests are delivered through Notting Dale Heat		
	Customer - feel that their heating needs are understood		

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	Customer - feel able to access any additional heating support needed		
	Customer - feel that they have control over their heating		
	Customer – feel that they have control over their energy bills		
	Customer – feel that the costs of their heating is good value		
	Customer – engagement with each residential block (every 6-months)		
The role of co-production in delivering excellent customer experience	Co-production is the engagement is residents in shaping a new service. By working with residents, we will develop data streams, feedback mechanisms and customer data contributing to the continuous improvement of Notting Dale Heat and the annual business plan review. Co-production will begin with residents of Treadgold House in 2023.		

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APPENDIX 2, BOARD SKILLS MATRIX

The matrix outlines specific skills required by the board to manage Notting Dale Heat effectively. The attributed skill level has been agreed with individual Board members.

	Highly experienced • Core to job role • 15+ years' experience		Good Experience • Relates to job role • Less than 15 years' experience		Some experience • Relates to job / voluntary role • Less than 5 years' experience		Skills target area • Where less than half the board have good / expert experience in the skills area.
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[Provide explanation re. scoring and update Skills Target numbers]

Collective skills target		Project Sponsor: James Caspell	Managing Director (interim)	Council: Terry Oliver (interim Chair)	Council: Liam McCusker	Resident: Susan Al Safadi	Resident: Daniel Chin
	Heat Network Industry Experience						
2	Knowledge of the heat network sector						
6	Knowledge of the broad company direction						
4	Understanding of local/central government processes and legislation						
2	Technical understanding of heat networks						
4	Understanding of social housing context						
3	Understanding of strategic approach to carbon-neutrality						
5	Experience of customer engagement / co-design						
	Technical skills/experience						
2	Accounting						
1	Finance						
1	Legal						
5	Marketing and branding experience						

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4	Public relations and communications				
4	Audit and regulatory compliance				
5	Experience in developing and implementing risk management				
5	Human resource management				
4	CEO/Senior Management Experience				
5	Strategy development and implementation				
5	Business Planning				
3	Community development experience				
3	Understands relationship between energy use and heat demand of buildings				
Governance competencies					
2	Director – organisation (5-99 employees)				
6	Financial literacy				
5	Strategic thinking/planning from a governance perspective				
4	Executive performance management (HR issues)				
4	Governance related risk management experience				
4	Compliance focus				
2	Profile/reputation				
Putting residents first					
4	Local knowledge of Notting Dale				
4	Local stakeholder engagement				
2	Delivering/managing customer services				
4	Understanding of complexities of social housing and those at risk of fuel poverty				
2	Lived in social housing or in Notting Dale				
3	Understanding of implications of the Equality Act				

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APPENDIX 3, MEASURING BUSINESS PERFORMANCE

Team Objectives		SMART OBJECTIVE	COMPLETION DATE	MEASURE OF SUCCESS	COMMENT
	Within Year 1				
	1	Recruit Notting Dale Heat Board , including full complement of 2 Council Officers, 2 Resident Board Members, 2 Industry Directors and an interim Managing Director.	End October 2022	3 rd Board meeting to be held in November with all parties appointed and invited.	
	2	Complete HNDU funding bid for Worlds End Estate Feasibility Study and Outline Business Case	End October 2022	Confirmation by HNDU of successful match-funding bid	Expectation that Government will introduce heat zoning, so important that Notting Dale Heat secures heat network in south of the Borough as part of its expansion plans.
	3	Business Plan	End November 2022	Business Plan finalised and approved by both company Board and Shareholder Committee	
	4	Agree detailed financial reporting requirements with Council	End December 2022	Council Section 151 Officer to confirm requirements	
	5	Complete Outline Business Case for Phase 2 expansion into Notting Dale ward	End December 2022	Recommendations from Outline Business Case submitted to Leadership Team as part of Final	Urgent need to progress Phase 2 to meet Green Heat Network Fund deadline for all

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				Investment Decision for Phase 1 in March 2023	construction spend by end March 2025
	6	Final Investment Decision for Phase 1	End March 2023	Council approves its investment and construction starts	Decisions arising from the Phase 2 Outline Business Case and Cross Borough Energy Masterplan also likely to form part of same Leadership Report
	7	Create Notting Dale Heat Policies and Procedures for construction phase	End March 2023	Policies and procedures completed and approved by company Board and Shareholder Committee (where appropriate)	Policies and Procedures to be clearly marked with date for renewal. Need to renewed at least every 3 years, with first renewals evenly spread over first 3 years to ease workload.
	8	Submit Green Heat Network Fund bid for grant funding for Commercialisation and Construction of Phase 2	End March 2023	Application made within timescale	Urgency to progress Phase 2 development within timescale to meet GHNF's deadline for all construction spend by end March 2025
	9	Complete SPV appointment of staff and consultants , including Financial Controller and legal advisors	End March 2023	Appointments in place	

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	10	Insurance for construction by Notting Dale Heat	End March 2023	Policies available	Council to cover Directors under its blanket D&O policy.
	Within Year 2				
	1	Contract with DBOM contractor	30 June 2023	Subject to Final Investment Decision	Council will contract with D&B contractor
	2	Discharge Conditions Precedent , Heat Network Investment Project (HNIP), Part 3,	30 June 2023	Confirmation by HNIP that all relevant conditions successfully met within required timescales	
	3	Complete Feasibility and Outline Business Case for World's End Estate	30 June 2023	Confirmation by HNIP that study satisfactorily completed	
	4	Submit Green Heat Network Fund bid for Commercialisation and Construction of World's End Estate Heat Network	End September 2023	Application made within timescale	
	Within Year 3				
	1	Create Policies and Procedures for operations phase	End September 2023	Policies and procedures completed and approved by company Board and Shareholder Committee (where appropriate)	
	2	Final Investment Decision approved by the Council, with signing of D&B for contract for construction of World's End Estate Heat Network	End March 2024	Contract placed within required date	
	3	Complete all HNIP ongoing Conditions Precedent	Annually / as required up to 30 April 2033	Confirmation by HNIP that all relevant conditions successfully met within required timescale/s	

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APPENDIX 4, RESOURCE REQUIREMENTS

This is the base case for Phase I and company operation, which is subject to change as the Business Development Strategy is implemented.

Role	When recruited?	Function	Sept 2022 to March 2023	Year 1	Year 2 and 3
Non-Executive Directors					
Independent Chair	After Final Investment Decision	Independent Chair of Notting Dale Heat	None	4 Board meetings and 2 Away Days	4 Board meetings and 2 Away Days
2 x Council Directors	Existing	Shareholder Board Members	4 Board meetings and 2 Away Days		
2 x Resident Board Members	Existing	Customer Voices on the Board	3 Board meetings and 2 Away Days		
2 x Industry Board Members	Summer 2022	Industry experts on the Board	2 Board meetings and 2 Away Days		
Executive Director					
Interim Managing Director	September 2022	Industry expert & Executive lead at the Board	0.2 FTE until FID	0.5 FTE until permanent MD appointed	None
Permanent Managing Director	After FID		None	0.5 FTE (depends on skill set & nature of role)	0.5 FTE (depends on future expansion)
Contractor					
Resident Engagement Manager	All Phases	Resident engagement to maximise take-up	0.6 FTE	0.6 FTE	0.6 FTE
Financial Controller	January 2023	Company finance lead	0.2 FTE	0.2 FTE	0.2 FTE
Operations Support Officer	Just before start of O&M operations in Autumn 2024. Possible Council secondees.	Operations support	None	None	0.2 FTE
Employee					
Company Administrator	Seconded from Council from FID. Bookkeeping + project support	None	None	1 FTE	1 FTE

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APPENDIX 5, RISK REGISTER

<p>Main strategic risks</p>	<p>Described below are the Top 12 Strategic Company Risks, which will be reviewed as a standing item at each Board meeting:</p> <p>1. Health and Safety (Current Risk Rating = 18/20)</p> <p>We are committed to putting safety first. This is never more important at such a sensitive site as LancWest Estate, where significant construction will be undertaken on a congested central London site. This is why DeRisk have been appointed as Principal Advisors, to ensure the quality of the health and safety questions and specifications in our main works packages. We are also recruiting a Principal Advisor, which is a legally defined role to ensure compliance with the Construction Design Management (CDM) Regulations. This is a critical role as we prepare for construction of the energy centres, primary, secondary and tertiary heat networks.</p> <p>In addition to our responsibilities for health and safety on a construction site, the company has a duty of care to its staff, contractors, residents and members of the public. These general health and safety duties will be covered through the company's Health and Safety Policy, and risk assessment. These will be developed over the summer and form an integral part of the company's approach to Risk Management, as described in Section 11.</p> <p>2. Heat Sources (Current Risk Rating = 18/20)</p> <p><i>Risk: as we electrify heating, the cost of grid reinforcement can be expensive. Whilst our Stage 3 technical design will help to balance the grid and avoid grid reinforcement, using the thermal store to store electricity and buy it when it's cheapest, there is a significant risk that no account of this is taken of this in our Budget Application(s) to UKPN. As a result, a significant CapEx cost that adversely affects project viability.</i></p> <p>Mitigation: we have established a strategic relationship with UKPN's new Innovation Team, with the opportunity to work together in partnership to resolve Problem Statements. We have raised this issue and have started to work together in partnership, to see what we can do for Phase 2 expansion into Notting Dale ward. For Phase 1, discussions continue, linking in UKPN's Innovation team. We also have the opportunity to lobby for reduced costs through Councillor Kim Taylor Smith, Deputy Leader and Lead Member for Grenfell, Housing and Social Investment.</p>
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	<p>3. Heat Demand (Current Risk Rating = 16/20)</p> <p><i>Risk: demand is a major risk for any heat network, as it directly affects heat revenues and the ability of the business to stay afloat and deliver its objectives.</i></p> <p>Mitigation:</p> <ul style="list-style-type: none"> ○ As landlord and landowner, the council controls the ability to connect for the majority of the homes and commercial properties at Lancaster West Estate and in Notting dale ward. It can therefore manage this risk to create a strategic opportunity that delivers many themes and priorities within the Corporate Plan. ○ Residential Heat Supply Agreements are being developed for tenants and leaseholders, noting that 80% of the LancWest Estate is on two existing heat networks, whilst 20% have individual gas combi boilers and need to be persuaded to connect. The Resident Price Promise has been developed to maximise the likelihood of these households wanting to connect. [Update based on legal review of Tenancy Agreements and Leases.] ○ Kensington Aldridge Academy has signed Heads of Terms, with a commitment to sign a full Heat Supply Agreement ahead of Final Investment Decision. ○ Kensington Leisure Centre and Baseline Studios are owned by the Council. We are working in partnership with Social Investment and Property colleagues to develop Heads of Terms for the Leisure Centre and will do the same with the Economic Development team for Baseline Studios. No red flag issues have been identified to date. ○ There is an ancillary risk with HNIP Conditions Precedent, which relate to full Heat Supply Agreements being signed ahead of Final Investment Decision. <p>4. Energy Procurement and Electricity Prices (Current Risk Rating = 16/20)</p> <p><i>Risk: the new heat network is totally dependent on electricity and a commodity that is rapidly increasing in price, albeit at a slower pace than gas.</i></p> <p>Mitigation: through the Refurbishment Programme we are maximising the amount of roof-mounted solar pv that is installed on residential blocks on LancWest Estate. We will also seek to purchase any green electricity generated through any roof-mounted solar pv installed on the roof of Kensington Leisure Centre. Although we're maximising the amount of locally generated green electricity, the bulk of our electricity supply will still come from the National Grid. We've mitigated the cost of this electricity by increasing the size of the Air Source Heat Pump from 1MW to a more efficient</p>
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	<p>1.5MW. For the green electricity that we do purchase, we will seek to buy it and hedge over the medium to long-term, either by bulk buying through the Council and/or the DBOM contractor.</p> <p>5. Heat Pricing (Current Risk Rating = 18/20)</p> <p><i>Risk: residential tariffs increase to the point that it is simply unaffordable for many residents, creating a debt risk for the Council. This is in the context of rapidly increasing global energy prices. Notting Dale Heat is insulated from a cash flow point of view, as it is bulk billing the Council for tenants and leaseholders.</i></p> <p>Mitigation:</p> <ul style="list-style-type: none"> ○ Notting Dale Heat is doing all it can to protect customers from rapidly rising energy prices and fuel poverty, ensuring that our 100% renewable heat supply is more affordable than alternative heating solutions. We charge as little as we can to the Council to ensure we cover our heat supply costs. However, the sad reality is that for many residents even this energy will be unaffordable. It is likely to prompt a significant cost of living crisis in a ward that already experiences significant deprivation. This creates a reputational risk for Notting Dale Heat and the Council, which is why we need to continue to be honest in our associated communications. ○ Notting Dale Heat can no longer offer affordable energy, as originally envisaged. Rather we are able to offer energy that is more affordable than the alternative heating solutions. The bulk heat sales structure allows the Council to vary to what extent it mitigates for such price increases, by determining how much it can afford to on-charge to residents. This risk is no different to existing heat supply arrangements whereby if gas prices go up so would heating costs to the council / tenant and leaseholder. ○ To de-risk Notting Dale Heat further, the Standing Charge will be set to cover the fixed costs of owning and operating the heat network. As we expand out beyond LancWest, with the opportunity to connect additional commercial loads, we will, consider the opportunity to offer 100% renewable heat on a 'Take or Pay' basis for an annual guaranteed minimum heat demand. Typically, such a heat demand would be set at 80% of the expected value to allow for some annual fluctuation and encourage energy saving. ○ For the direct heat sales by the Council to individual residential heat users, a guaranteed annual minimum heat load is not seen as appropriate. Instead having a Standing Charge, together with a Usage Charge, is normal practice. This helps to mitigate for any low heat sales by ensuring that at least the administration cost of metering and billing is in part recovered. Whilst there is a risk that a residential unit may become vacant, the heat network sector view is that, as residential dwellings are soon re-let / sold with a new occupier then in place, such risk can be accommodated by creating an appropriate financial contingency.
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6. Refurbishment Programme Interdependency (Current Risk Rating = 16/20)

Risk: as a complex Phase 1 project within a much larger site-wide Refurbishment Programme at LancWest, there is a significant interdependency with Notting Dale Heat. This involves ensuring that the company is able to manage its cash flow risk from the timing of new connections and co-ordinating construction logistics on a compact site to minimise resident disruption during an extended build programme.

Mitigation:

- Notting Dale Heat has mitigated the risk of a delay in the Refurbishment Programme delaying connection of un-refurbished blocks to the heat network, with associated revenues and cash flow issues. We have achieved this by changing our construction schedule. Notting Dale Heat will now connect all residential and commercial loads in 2024, with the exception of Cambourne Mews, Verity Close, Bomore Road and the main heat supply to Kensington Leisure Centre.
- By connecting the majority of un-refurbished blocks from Day 1, the company mitigates the cash flow risk. The residents of these blocks continue to pay existing energy tariffs, until they have heat meters installed as part of the refurbishment of their block. In the meantime, these residents benefit from reliable and 100% renewable heating. When the secondary and tertiary networks are installed as part of the Refurbishment Programme, these residents will also benefit from heat meters and having control of the temperature in their homes.
- The company works closely with its successful contractors, residents and the Lancaster West Refurbishment Programme to successfully co-ordinate construction logistics and to minimise disruption to residents. This work has only just commenced, so is currently high risk and will be mitigated as we move closer to construction.

7. Financial (Current Risk Rating = 16/20)

Risks:

- CapEx budget increases to such an extent that the Council can't afford to approve the Business case at Final Investment Decision.
- Cash flow is a significant risk for any start-up business, especially for a large-scale infrastructure business where the bulk of the CapEx investment is up front.

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	<p>Mitigation:</p> <ul style="list-style-type: none"> ○ The financial model has been rerun and the Council's Medium Term Financial Plan adjusted accordingly, subject to a formal Capital Bid. Further sensitivity analysis is being undertaken to see if this Capital Bid needs to be further increased, to ensure we have covered the worst-case scenario. ○ In the Leadership Report of June 2021, we have established the need for a 'Working Capital Facility' with the Council as sole shareholder to mitigate this risk. This will form part of the recommendations in the Leadership report at Final Investment Decision. <p>8. Heat Network Performance (Current Risk Rating = 14/20)</p> <p><i>Risk: the Stage 3 design has been developed with the ambition to create the most reliable heat network in the UK, with the risk that anything less than perfect is seen as a failure by residents, especially for those residents who perceive comfort as flats warmer than 21 degrees.</i></p> <p>Mitigation:</p> <ul style="list-style-type: none"> ○ The core solution can provide heat to LancWest Estate for 24 hours. There is emergency back-up, in the form of the gas boiler at Kensington Leisure Centre and in exceptional circumstances, if needed, we will be able to bring in temporary gas boilers. This means that we have significant reliability for our renewable heat supply. Where we are more exposed is on our electricity supply and the event of an Estate wide power cut. ○ The heat network team is investigating how to provide sufficient reliability to the power supply from the Grid, which will form part of the Stage 3 Design. ○ We need to carefully manage messaging to residents, so that we under promise and over deliver. <p>9. Contractors (Current Risk Rating = 12/20)</p> <p><i>Risk: if contractors are late in the heat network construction, we can't supply heat.</i></p> <p>Mitigation: through the contracts for the DBOM and D&B contracts, delivery risk is passed down as far as reasonably possible to the private-sector. If the contractors are late, they pay out through Liquidated Ascertained Damages, to</p>
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	<p>cover the cost of bringing in temporary boilers. This risk can't be fully mitigated until the contractors are appointed and the contracts signed.</p> <p>10. Governance (Current Risk Rating = 10/20)</p> <p><i>Risk: lack of stakeholder buy-in and as Notting Dale Heat is set-up and becomes operational, unreasonable operating costs.</i></p> <p>Mitigation:</p> <p>As the Council's Heat Network Programme has been developed over the last 18 months, significant stakeholder engagement has taken place. We have worked in partnership with residents to deliver an excellent customer experience, using resident co-design and co-production to put residents first. At the same time the heat network team has secured significant political buy-in. This has resulted in two Leadership Reports, one to approve the development of a new 21st century heat network at LancWest, and the second to approve incorporation of Notting Dale Heat as the Council's 100% owned local energy company. The governance has been set up to be commensurate with the level of investment and risk profile.</p> <p>The two Leadership Reports follow the principles of good governance and are based on lessons learned elsewhere. A review was undertaken of existing heat network schemes delivered by other local authorities to help inform Leadership Team in June 2021 Executive Decision Report (rbkc.gov.uk). Since then we have undertaken further analysis into the governance of existing schemes to gain further insights into what aspects make for successful projects.</p> <p>This has included significant success stories with Energetik, Gateshead Energy Company, and Aberdeen Heat and Power. We have also considered local energy companies that have not survived, namely EnviroEnergy, Robin Hood Energy and Bristol Energy, as well as heat networks with well-documented poor customer service (Myatt's Field). A total of 13 case studies were produced. As a result, we have applied ten lessons learned to the Notting Dale Heat Network:</p> <ol style="list-style-type: none"> 1. Clear Project Objectives agreed at the outset. 2. An integrated technical, financial and commercial best practice design that allows for heat network expansion. 3. Clear accountability with well-defined roles and responsibilities, and delegated authority. 4. A ring-fenced budget with focussed management. 5. Active risk management. 6. The ability to use assets and revenue stream to secure debt financing for expansion.
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	<p>7. Establishes a Board Structure with industry expertise to prevent “Institutional blindness.”</p> <p>8. Enshrine key objectives into the Articles of Association.</p> <p>9. Enables the Council as shareholder to provide strategic direction.</p> <p>10. Ensures day-to-day executive operations are led by experienced professionals.</p> <p>The Shareholder’s Agreement and Delegations Matrix provide a legal structure and clear delegation of powers, mitigating the risk of unclear roles and responsibilities.</p> <p>Recruitment of 2 Resident Board Members strengthens the company Board, ensuring customer voices are at the table when the company Board is making important decisions in line with the Delegations Matrix. One of the key lessons learned from other UK heat network projects, is that heat networks need to be designed with the final customers in mind. The Council’s approach to Resident Co-Design exemplifies this approach, ensuring we put residents first. Recognising the Council’s need to manage risk, especially of a large infrastructure project in its early years, the two Resident Board Members have voting rights, but no majority vote.</p> <p>In line with good governance, an interim Managing Director and registered Company Director is needed to both lead development and present the Company’s Business Plan and provide assurance in focussing on Notting Dale Heat’s heat network expansion. This ensures an appropriate balance between risk mitigation, opportunity development through expansion and value for money.</p> <p>Section 13 of this Business Plan on ‘Resources’ describes the ‘Minimum Viable Product,’ which is proportionate to the stage of company development, whilst recognising that a local energy company is not core business for the Council. It requires industry expertise and experience to mitigate risks, apply lessons learned from elsewhere (good and bad) and maximise business development opportunities. In parallel we continue to utilise permanent Council resource, which will be subject to a Service Level Agreement once the company is operational.</p> <p>Given the location of the Phase I scheme at Lancaster West Estate, many potential heat network customers are directly and indirectly affected by the Grenfell Tower tragedy. This requires Resident Engagement expertise. The resultant resident co-design and ethos about putting residents first, has significantly strengthened the Business Case. So much so, that central government has featured it as a case study in its new Competency Framework.</p>
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	<p>11. Business Development and Expansion (Current Risk Rating = 8/20) <i>Risk: the customer experience on Phase 1 isn't as good as we hoped, which reduces momentum and Notting Dale Heat fails to expand quickly enough. As a result, the company doesn't deliver its objectives to do all it can to protect residents from rising energy prices and fuel poverty, and to support the Council to move towards carbon neutrality by 2030.</i></p> <p>Mitigation: see Appendix 1 for how we'll deliver an Excellent Customer Experience. See Section 7 for the company's Business Development Strategy, ensuring the company provides an appropriate balance between ensuring an excellent customer service experience and doing enough business development now, to ensure that the company doesn't miss out on significant heat network expansion opportunities. Many of these opportunities are time critical and won't necessarily wait for Notting Dale Heat to be able to supply reliable and 100% renewable heat.</p> <p>12. Forthcoming Regulation and Price Control (Current Risk Rating = 8/20) <i>Risk: the heat network isn't future-proofed for forthcoming regulations, which results in additional cost that adversely affects our ability to protect residents from rising energy prices and to support the Council to move towards carbon neutrality by 2030.</i></p> <p>Mitigation:</p> <ul style="list-style-type: none"> ○ We have engaged Ofgem (the new heat network regulator) and BEIS at a strategic level, to show how we're putting customers first and our plans for excellent customer engagement. We'll continue this dialogue, with the aim of ensuring that Notting Dale Heat remains ahead of future regulation. In addition, we will apply to be accredited with the Heat Trust, which is the minimum industry standard for consumer protection. The Council has also developed the Resident Price Promise, to ensure that residents don't pay a premium by doing the right thing and going green early. ○ Although a Price Cap is likely to be introduced through the Energy and Securities Bill, which is currently working its way through Parliament, this is not considered a significant risk for Notting Dale Heat. This is because we're seeking to be more affordable than alternative heating solutions and to minimise customer tariffs. As a result, in the unlikely event that Notting Dale Heat is ever on the wrong side of the Price Cap, the entire UK heat network would be likely to go under.
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APPENDIX 6, INSURANCE

[Cross Reference with Tender Packs]

The company will have all appropriate insurance as shown below. In addition, we will ensure that our contractors have appropriate insurance through our procurements.

	Insurance	Value
1	Operational All Risks	To be linked to contract value of assets created. Secondary & tertiary networks estimated as £12m Energy centre & primary network estimated as £11m.
2	Employers Liability, only if Notting Dale Heat has direct employees	£10m
3	Public Liability	£10m
4	Business Interruption	[£0.5m] to be assessed based on rental cost of temporary boiler
5	Directors & Officers Liability insurance	Part of the Council's existing policy