

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee - 7 November 2024

Subject: **PART A** Manchester Energy Network: 2024/25 Six Month Performance Update

Report of: City Treasurer

Summary

This report provides an overview Manchester Energy Network’s performance targets and priorities outlined within the 2024/25 business plan, which was previously presented to the Resources & Governance Scrutiny Committee in March 2024.

Recommendations

The Resources and Governance Scrutiny Committee is recommended to note the report.

Wards Affected: All

Environmental Impact Assessment -the impact of the issues addressed in this report on achieving the zero-carbon target for the city	The Manchester Energy Network will be a key contributor towards the delivery of the 2038 Manchester zero carbon pathway. The Energy Network has a defined carbon saving to deliver within the period 2025-30 that will be outlined as part of the refreshed Climate Change Action Plan. Updates on progress will be provided on a quarterly basis through the Zero Carbon governance and performance management structures.
Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments	Not applicable for this report.

Manchester Strategy outcomes	Summary of how this report aligns to the Our Manchester Strategy/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Not applicable.
A highly skilled city: world class and home grown talent sustaining the city's economic success	Manchester is one of a small number of UK cities that have agreed a science-based target and is leading the way in transitioning to a zero-carbon city. In future, the Manchester Energy Network could potentially provide the city with opportunities in the green technology sector.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Not applicable.
A liveable and low carbon city: a destination of choice to live, visit, work	Manchester Energy Network is a key contributor towards the Manchester Climate Change Action Plan, particularly in the period 2025-30, in order to support the delivery of the 2038 net zero carbon target for the city.
A connected city: world class infrastructure and connectivity to drive growth	Not applicable.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

There are no capital consequences associated with this report.

Financial Consequences – Capital

There are no capital consequences associated with this report.

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Background documents (available for public inspection):

Resources & Governance Scrutiny Committee, 7th March 2024
Manchester Energy Network 2024/25 Business Plan: [Governance Report](#)
(manchester.gov.uk)

1.0 Introduction

- 1.1 The purpose of this report is to provide the Resources and Governance Scrutiny Committee with a performance update on the Manchester Energy Network at end of Q2 2024/25 against business plan targets, as well as providing an overview of overall business activity.

2.0 Background

- 2.1 The Manchester Energy Network, formally known as Civic Quarter Heat Network, was developed to provide heat and power to buildings within the Civic Quarter utilising a gas powered Combined Heat and Power (CHP) engine. Through the installation of the Network's CHP, this has negated the need to replace individual heat and power units in Council and commercial buildings, which the Network now supplies, that were coming to the end of their useful life.
- 2.2 As part of the original business case for the development of the Network, it was envisaged that the Network would be able to provide a route to assist with the decarbonisation of assets within the Civic Quarter which are difficult to address through other means due to the historic nature of the buildings and / or the restrictions around development / alterations to these buildings. However, from the commissioning to the installation of the CHP, technologies advanced significantly. At present, the CHP is fuelled by natural gas but there is ongoing work to put in place a decarbonisation strategy for the Network, which is outlined in the Part B report.
- 2.3 Vital Energi were appointed to deliver the Network under a Design, Build and Operate and Maintain (DBOM) contract signed on the 31 December 2018, which was procured via the Carbon and Energy Fund (CEF) Procurement Framework. The duration of the contract with Vital Energi is for a 30 year term.
- 2.4 At the meeting of the Executive on 21st March 2018, approval was given to establish a Special Purpose Vehicle (SPV) to operate the Network. The company structure for governing and managing the Network was designed to enable the sale of heat and power to any buildings, public or private, on the route of the network. The SPV comprises the following entities:
- A holding company for the Energy Network entities (Manchester Heat Network HoldCo Limited 11954438);
 - A trading company (Manchester Heat Network TradeCo Limited 11954693), which will supply heat and power to private sector companies. TradeCo holds the primary generation assets and the associated contracts with Vital, gas and electricity providers and other suppliers as required; and
 - A wholly owned controlled company ('Teckal' company) (Manchester Heat Network SupplyCo Limited 11958857), which will procure heat and power from TradeCo to supply to Manchester's local authority buildings.

- 2.5 An overarching Board has been in operation since August 2020, initially in shadow form until the SPV became active in late 2022. The Board has overall accountability for the delivery of the SPVs business plan and oversight of operations, undertaking decision making within the structure of the delegation arrangement with the Shareholder as established on inception of the Board.
- 2.6 Given the range of matters which the SPV covers, a number of subject matter specific sub committees/working groups, each chaired by a Non-Executive Director with relevant industry expertise have been established.
- 2.7 All contractual arrangements relating to Manchester Energy Network were novated from Manchester City Council to Manchester Heat Network TradeCo Limited in December 2022. The novation had to take place to enable the trading of heat and electricity on a commercial basis to external customers, which the Council would not be able to carry out directly itself within its powers.
- 2.8 The Network is wholly owned by the Council, with a blend of equity and debt funding provided by the Council to be repaid over a 30-year term. In addition to the initial Council funding, a grant was also received via the government administered Heat Network Investment Project (HNIP) in 2018. The initial funding arrangements for the Energy Network is as follows:
- Equity: £6,630,000
 - Loan: £14,500,000
 - HNIP Grant: £2,870,000
 - **Total: £24,000,000**
- 2.9 From 1st July 2023, the Assistant Director of Commercial Governance and Corporate Energy took over responsibility for oversight of the operation of the Network, stepping into the role Senior Responsible Owner. A comprehensive review of the whole operation of the Network took place to ensure that the appropriate policies and processes were established, ensuring that external advisors supporting the SPV are utilised in the most effective way and that a number of legacy issues were drawn to a close. This resulted in the development of a one year business plan with an emphasis of a phase of 'stabilisation' for the SPV.
- 2.10 The 2024/25 business plan was built around the core values:
- **Clean:** The energy which the Network wants to provide to customers will be clean and green ensuring that the supply from the Network makes a positive contribution to the delivery of the Manchester 2038 net zero targets, as well as the corporate zero carbon targets which customers are committed to through their own carbon reduction plans. The delivery of this target will be demonstrated through the approach outlined in the Network's decarbonisation pathway and decarbonisation action plan.
 - **Competitive:** Provide customers with value for money, with the Network's approach to pricing fair, transparent and comparable to other energy suppliers in the market.

- **Reliable:** Network customers receive a consistent and reliable energy supply, with any reported problems addressed quickly and efficiently.

3.0 Manchester Energy Network: 2024/25 Six Month Performance Update

3.1 Due to the commercially confidential nature of the business plan performance update, this is required to be treated as a Part B item. The detailed report covers the following areas:

- Resourcing and operations
- Customers and connections
- Tariffs and contracting
- Gas Counterparty procurement and approach to gas purchasing
- Key Performance Indicator delivery
- Financial performance and outlook
- Return of Shareholder funds
- Approach to Decarbonisation
- 2025-30 business plan development
- Risk Management and Mitigation

4.0 Recommendations

4.1 As set out at the beginning of this report.