

TITLE EASTBOURNE BOROUGH COUNCIL

DATE: 28 JUNE 2011

JOB NO. 111054

RIDGE

REVIEW OF PROPOSALS TO INSTALL SOLAR PV TO 1,551 PROPERTIES

This review is being undertaken in conjunction with Sector Treasury Management who are undertaking the review of the financial aspects of the Business Plan, Ridge are tasked with undertaking a review of the technical aspects and inputs used in the Business Plan.

The spreadsheet entitled "110622 Final draft for Sector_with CO2_concise.xls" and a schedule of rates from the tender exercise "110509 Schedule of Rates – Lot 1.xls" are the only documents supplied by Eastbourne Borough Council (EBC) for the review. In addition Mike Doherty from Ridge has had a conversation with Nick Adlam from EBC regarding a number of initial queries arising from the information supplied.

The Business Plan details the costs and income over 25 years associated with installing solar PV to 1,551 council owned properties comprising housing stock and commercial properties. EBC plan to use the Governments Feed in Tariffs (FIT) to finance the installation and running cost associated with the project.

A tender on a framework basis will be let with each tenderer specifying their own equipment in terms of solar panels and inverters, the specification is performance based and includes for 80% panel efficiency for 25 years and a guarantee of performance for 25 years for the panels and inverters.

Installation costs are based on tendered rates (£3,062 per kW for a 2Kw system) – see "110509 Schedule of Rates – Lot 1.xls". These appear to be slightly higher than expected for the volume of installations proposed but include a number of other costs - see below.

From the total stock of 2,200 homes, 1,465 (plus 86 commercial properties) have been identified from a feasibility study as suitable (this excludes maisonettes) which is a higher proportion than Ridge have experienced – Nick Adlam assures me that the majority of the stock have the correct orientation and pitch and they will consider properties outside of the maximum efficiency orientation but recognise the reduced income derived.

The inputs included in the business plan appear to be reasonable including:

- One-off costs for the first year (it is noted that the contingency includes for District Network Operator (DNO) costs of £160,000 and £30,000 for upgrading meters like pre-pay meters that might not work);
- Ongoing annual costs (some of these costs have been included in the tender);
- Guaranteed panel efficiency of 80% at 25 years;
- Government FIT rates (checked against the Degression Tariff table to 2020);
- Assumed 50% of generated kWh for electricity exported; and
- Allowances made for costs of removing panels for re-roofing and the subsequent loss of FIT income.

No cost allowance has been included for:

- Roof strengthening (the requirement for this will be determined after the surveys have been completed by the contractors, if costs prohibitive the properties will be removed from the programme); and
- Right to buy sales (no cost allowed as the basis for sale will be that panels remain EBC property and new owner will receive free electricity).

Legal advice has already been obtained on whether changes are required to tenancy agreements on properties where panels are being installed.

Other costs I would have expected to have seen in a business plan but are actually included in the tendered rates include:

- The cost of remote performance monitoring;
- The cost of de-commissioning at the end of 25 years;
- The cost of upgrading electrical systems (if required);

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- The cost of detailed surveys;
- The cost of replacing inverters; and
- The cost of attending breakdowns.

The likely yield from a 1 kW solar PV panel has been assumed at 900 kWh per annum which is within the Building Research Establishment guidelines of 700 – 1,000 kWh per annum.

The costs associated with undertaking the procurement exercise has been allowed for in Legal Fees sum of £80,000.

A significant risk identified is undertaking the programme as planned, for the housing stock of 1,465 properties this equates to 100 per week from July to October 2011 - Nick Adlam has assurances that all tenderers have confirmed their ability to undertake 100 – 150 installs per week and have previous similar social housing experience in this sector. Once the actual properties have been identified I believe that a longer lead in time will be required to ensure effective consultation with residents and the DNO, changing meters and roof load calculations.

I have undertaken some random checks on the spreadsheet formulas especially on the items likely to influence decisions and have found them to be arithmetically correct (not all formulas in all cells have been checked).

The Department for Energy and Climate Change (DECC) has undertaken a fast track review of FITs, this has not affected installations below 50 kW, but revised banding and lower rates have been introduced commencing August 2011. The fast track review reiterated the Governments commitment to 'householders, small businesses and communities'. A comprehensive review is being undertaken this summer which may lead to changes in the FIT rates and banding.

As I precaution I would like to see a sensitivity analysis on the change in income derived from FIT rates if the programme slips beyond March 2012 and to establish if the plan is still viable if the FIT rates are significantly reduced from 1 April 2012 following the Comprehensive review by DECC.

Overall the Business Plan appears to be well founded and includes all costs Ridge would expect to see in a project of this type, the assumptions made appear to be reasonable. Where costs are not currently included the Client is aware of the potential for additional cost (i.e. roof strengthening). When the surveys have been complete it would be prudent to re-cast the Business Plan to ensure that the original aspirations of the plan are still achievable before orders are placed.

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29 June 2011