

Extending District Heating & CHP in Leicester – Risk Matrix

	Project Risks	Management	Probability	Impact		
	Contractual Risks					
	<p>Cofely's Final Bid meets all of our minimum requirements although there is still the possibility that contractual terms and conditions may not be agreed between the two parties specifically relating to the following areas:</p> <ul style="list-style-type: none"> - Responsibility for ongoing maintenance of infrastructure and dilapidations - Allocation of risk. 	<p>The purpose of fine-tuning is to ensure that both parties are satisfied with contractual arrangements prior to signing contracts.</p>	Low	High		FINE TUNING
	<p>It is possible that, prior to the Preferred Bidder taking over the service, the Council will have had to renew existing contracts relating to:</p> <ul style="list-style-type: none"> - Gas purchase via ESPO - Electrical and mechanical maintenance <p>As a result there may be issues associated with transfer or termination of existing agreements.</p>	<p>Whilst it is anticipated that the Project will have limited impact on maintenance / gas contracts, given the timetable for contract closure, the approach is being reviewed to take in to account current contracts and any contract breakage costs will be assessed fully prior to contract signing.</p> <p>Potential impact will be minimised as Cofely propose a period of interim management allowing for the gas purchase contract to expire.</p>	Low	Low		FINE TUNING
	Financial Risks					
	<p>Financial viability of the Project is partially reliant on the inclusion of almost £1 million external funding from the Community Energy Savings programme (CESP). Delays in contract discussions could mean that the deadline for expenditure may not be met and the £1 million funding is withdrawn.</p>	<p>With the Members' decision on award of contract to be made on 13th December and contracts to be prepared in readiness for signing in December, Cofely will be in a position to secure the CESP funding in advance of the year-end deadline.</p> <p>It should be noted however, that delays in contract discussions with the University may impact the programme for the network link to the CESP area of St Peters – other estates will remain unaffected.</p>	Low	High		Project Director / Project Manager / Legal
	<p>A future change of law may result in an increase (or decrease) in operational costs that will flow through the financial model and may result in price increases.</p>	<p>Whilst changes in law cannot be predicted and level of risk is therefore difficult to establish, changes of law could have both a positive and/or negative effect on operational costs and the supplier will be contracted to ensure that they make all reasonable endeavours to mitigate adverse affect of any change in law and maximise any reduction in costs that may result.</p>	Medium	Medium		Project Manager / Legal
	<p>It is clear that the added cost (estimated at £6 million) for installation of residential meters adversely affects the affordability of the Project and cannot be included at day one. As a result, residents will continue to be unable to control the amount that they pay for their heat, potentially leaving the Council under pressure to raise the £6m required for metering.</p>	<p>Whilst simultaneous procurement of individual meters may be technically more efficient, Cabinet has that it should only be included "without jeopardising the fundability of the overall scheme".</p> <p>External funding can be sought and other efficiency measures introduced, and a full impact analysis and pilot (including the added 5% VAT for metered heat) is proposed that will clearly identify the best way forward including considering potential external funding available and a phased approach.</p>	High	Low		Project Manager / Project Director

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	At the end of the contract the Council may not have sufficient capital to buy back the assets at fair market value.	The Council will have the option to either buy back the assets; to extend the term of the contract; or to retender so that a new supplier could purchase the assets. There is a transition period built in at the end of the contract (of up to 3 years) to allow a decision to be made and retendering to be completed if appropriate at that time. The Council could also choose to retain and invest the capital it initially receives for the assets to ensure that capital is available to buy back the assets at the end of the contract.	Low	Low		Finance Director
	Capital costs of the project could increase beyond those identified in the Preferred Bidder's financial model.	Capital costs of the project, and any increase in these costs, will be borne by the supplier.	Low	Low		Project Manager / Legal
	Strategic Risks					
	Whilst CHP will result in fuel efficiencies, the Preferred Bidder proposes to utilise gas-fired CHP in the first instance. As currently exists, prices for heat will therefore remain closely related to the price of gas and subject to movements in gas price. In addition, adverse weather conditions that result in increases in consumption will affect the levels of heat consumed.	Cabinet have approved the report (July 08) identifying this as a sensitive assumption although it is anticipated that the cost of heat will start (and remain) in line with market prices for the contract period. Purchasing power will be improved as Cofely are part of the GDF Suez utilities group, and progress towards utilisation of renewable fuels will reduce reliance on conventional fuels and reduce impact of price volatility.	Low	High		Project Manager / Project Director
	Highways disruption may be unpopular – provisionally programmed to commence mid to late 2011.	Liaison with Highways has commenced and Highways issues will be reviewed early on and planned sensitively following Council programming procedure and taking into account stakeholder views.	Medium	Low		Project Manager
	Commercial Risks					
	Until Individual Heat Supply Agreements are signed with the Preferred Bidder there is a possibility that identified partners/users may decide not to proceed. This may result in a need for the Preferred Bidder to redesign.	Identified senior users (University of Leicester/HMP Leicester) are represented on the Project Board with input to the specification. Cofely's Bid includes detailed proposals for both the University and the Prison. Both parties have entered into detailed discussions with Cofely and are keen to go ahead with the scheme subject to agreeing financial and contractual terms.	Medium	Low		Project Director / Project Manager
	Should the cost of new connections to the scheme fail to be competitive then the scheme is unlikely to grow and carbon emissions targets may not be met.	As the Preferred Bidder's proposal relies on payback of their capital investment through scheme expansion, it is likely that costs will be competitive as compared to conventionally supplied heat. Costs to the Council have been fine-tuned and represent an overall saving over the 25 year term.	Low	Medium		Finance Director
	Technical/Operational Risks					
	Any unforeseen disruption to the existing service during works could have an adverse effect on end users.	The contract will ensure that the provider is responsible for maintaining continuity of service including during works and will ensure that works will be planned to avoid winter months.	Low	Medium		Project Manager

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	Operational performance issues may arise and the Council may not be in a position to influence the quality of service to end users.	The Output Specification will ensure that the provider is responsible for meeting targets with financial penalties for failure to meet the output criteria.	Low	Medium		Project Manager / Legal
	Failure to ensure that there are contingency measures in place in case of unforeseen contract termination could prove costly.	The contractor will be responsible for Business Continuity Plan arrangements as part of the contract terms and will agree the plan with Risk Management. Termination clauses/procedure will be detailed in the contract.	Low	Medium		Project Manager / Legal
	Unforeseen design/construction issues could lead to time or budget overrun.	An experienced technical project manager will plan and lead the project through the design and construction phases. The development budget is the responsibility of the supplier.	Low	Low		Project Manager
	Organisational Factors					
	Although impact on tenants and leaseholders will be beneficial, some residents may be resistant to the project and concerned about a private company being responsible for their heat service.	A programme of community engagement has been ongoing to ensure that residents have a means to raise and resolve concerns. The forum for community engagement will remain ongoing with an “Operations Board” to be set up for stakeholders.	Medium	Low		Project Manager
	Environmental Risks					
	Should the Preferred Bidder fail to achieve carbon KPIs/targets, the scheme may fail to help the Council and senior users to meet defra CRC trading scheme targets.	The contract will ensure that the provider is responsible for meeting targets with financial penalties for failure to meet the Output Specification in this area.	Low	Medium		Project Manager / Legal
	Any requirement for land/space for additional plant may have a negative impact on surrounding environment.	Liaison with Planners is underway and any requirements for land will follow normal Council planning procedure taking account of environmental impact.	Low	Medium		Project Manager