

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 7 December 2015

<b>Portfolio:</b>	Finance and Resources
<b>Subject:</b>	Disposal of Land at Daedalus
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	Corporate Strategy
<b>Corporate Objective:</b>	A dynamic, prudent and progressive Council

#### **Purpose:**

To consider the terms for the disposal of land at Daedalus, to enable the delivery of the IFA2 interconnector project by National Grid IFA2 Ltd (NGIL).

#### **Executive summary:**

National Grid is planning a major new energy infrastructure project linking the United Kingdom's electricity transmission network to France, with its UK connection point being located in Fareham.

The project requires a large area of land to construct a converter station, which is a facility that converts alternating (AC) current to direct current (DC), and a site at Daedalus has been identified for this facility.

The report sets out commercial Heads of Terms for the disposal of land to enable this project to progress to the next stage of technical feasibility and detailed design. If the technical feasibility and suitable environmental evidence can be demonstrated, then the Council would grant an option to National Grid to enter into a lease for land at Daedalus. The option would be exercisable by them upon certain conditions being met, and the lease would be completed once the facility was constructed.

Assuming that the lease is completed, the premium paid by National Grid for the interest in the land would be reinvested in Daedalus, to provide funding for some of the improvements identified in the Council's approved Vision for the site.

**Recommendations:**

That the Executive:

- (a) approves the draft Heads of Terms, as set out in confidential Appendix A to this report;
- (b) delegates authority to the Director of Finance and Resources in consultation with the Executive Member for Policy and Resources to agree the detailed terms, as appropriate; and
- (c) agrees to reinvest the proceeds of the disposal of land under this agreement into the delivery of actions that support the Vision for Daedalus.

**Reason:**

To enable the disposal of land to National Grid to progress further.

**Cost of proposals:**

The legal and surveyors costs associated with the disposal of land will be met from the proceeds of the disposal. The premium payable, should a lease be entered into, will be made available to fund the improvements in the Vision for Daedalus.

**Appendices:**

**A: Draft Heads of Terms (CONFIDENTIAL)**

**B: Illustrative Map of the Site**

**Background papers:**

# FAREHAM

## BOROUGH COUNCIL

### Executive Briefing Paper

<b>Date:</b>	7 December 2015
<b>Subject:</b>	Disposal of Land at Daedalus
<b>Briefing by:</b>	Director of Finance and Resources
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. National Grid is planning a major new energy infrastructure project linking the United Kingdom's electricity transmission network to France, with its UK connection point being located in Fareham.
2. The project requires a large area of land to construct a converter station and land at Daedalus has been identified as a potential location for this facility. The report sets out commercial Heads of Terms for the disposal of land to enable this project to progress to the next stage of technical feasibility and detailed design.

#### BACKGROUND

3. The National Grid project, known as Interconnexion France Angleterre 2 (**IFA2**), is a major piece of new energy infrastructure linking the United Kingdom's electricity transmission network to France, with its UK connection point being located in Fareham.
4. The project will provide a high voltage direct current (HVDC) electricity interconnector between Fareham (at Daedalus) and Caen in Normandy, France. The interconnector is made up of undersea cables running for more than 100 miles between the two countries which would connect at either end to a converter station. The converter station in Fareham is proposed to be based at Daedalus in Stubbington.
5. This converter station would convert the forms of alternating current (AC) electricity used domestically in France and Britain into direct current electricity (DC) that can be used for transmission between the countries.
6. The interconnector would then link to the national electricity network at a replacement substation building at the existing National Grid site near Chilling, Warsash. There will be a need for undersea cables to run from Daedalus to Chilling to connect the two sites rather than running the cables over or under the land.
7. Once operational, the facility will be capable of exchanging 1,000MW of power between Britain and France, enough to power over 1,000,000 homes, and will help to enhance the security, affordability and sustainability of energy supply to both countries.

## **DAEDALUS AS A LOCATION FOR THE CONVERTER STATION**

8. The point at which the Interconnector has to feed into the UK electricity network is at the existing substation in Chilling, Warsash. National Grid have advised that due to this constraint, the converter station has to be located in relatively close proximity to the connection point, both for technical and economic reasons.
9. The National Grid previously identified land at Chilling for the converter station, but this was rejected by the landowner, Hampshire County Council. The Borough Council was also unsupportive of this location, as it felt the natural beauty of this coastal landscape would be very badly affected if that was also the site for the large converter station. National Grid was therefore requested to consider siting the station at Daedalus instead and to run undersea cables between the two locations.
10. Initial feasibility work carried out by National Grid has suggested that, whilst Daedalus presents a more expensive and technically challenging location to deliver the converter station, it is a feasible location. Furthermore, it recognises Daedalus as an area for commercial development, with a focus on advanced engineering and manufacturing activity, something that is relevant to the Interconnector project.

## **TERMS FOR LAND DISPOSAL**

11. Through discussions with National Grid, draft Heads of Terms have been prepared for the disposal of land to accommodate the converter station. These are attached in confidential appendix A. There are a number of elements in the terms, which are designed to safeguard the position of both the Council and the National Grid, given the uncertainties that still remain in this project.
12. License to undertake ground investigation works: The Council has already granted a license to carry out ground investigation works on the plot identified for the converter station at Daedalus, as well as the route for the cabling (connecting the UK to France and connecting the converter to the substation at Chilling). This work will be carried out November-December, and will provide National Grid with a detailed understanding of the ground conditions and is necessary to confirm the technical feasibility of the site.
13. Technical Study: An important precursor to the grant of an option to dispose of land to National Grid will be the impact that the converter station will have on the environment, and in particular the perceived impact of electro-magnetic emissions on the local community, communications infrastructure and the Council's ability to deliver its Vision for Daedalus (particularly regarding airfield activities).
14. To this end, the heads of terms require National Grid to fund a jointly specified and commissioned technical study to provide assurance that the perceived risks associated with the facility are at an acceptable level, and will not undermine the wider vision for Daedalus. The condition will only be fulfilled once the Council is satisfied that the impact of the converter station does not materially impact on the operation of the airport or the ability of the Council to deliver its Vision for Daedalus.
15. Option Agreement to Lease Land: Once the National Grid have satisfied the Council through the technical evidence study referred to above, an option agreement will be completed, for a Building Lease/Agreement for Lease land with associated easements, to secure the site for the Converter facility. The option is conditional on certain events being met, but effectively protects the land for the Interconnector project for a period of 4 years. Once those conditions are satisfied, then the National Grid is able to choose if

it wishes to exercise the option and progress to a Building Lease/Agreement for Lease. Upon securing the option, the National Grid will be obliged to pay a non-refundable option fee.

16. Building Agreement/Agreement for Lease: If the National Grid exercises the option, then a Building Lease/Agreement for Lease will be entered into. The Building Agreement will give National Grid the rights to access the site for the converter station, along with a wider area on Daedalus for laying down materials during the construction phase, and then to construct the facility. It will also set out the parameters that they must follow during the construction phase. The National Grid will be required to carry out and complete the development in accordance with the approved planning permission and a defined programme, and in accordance with the Council and CAA's requirements in respect of aerodrome safeguarding.
17. Agreement for Lease/Lease of Land: At the same time as entering into a Building Agreement, the Council will grant an Agreement for Lease. This provides certainty that, provided that National Grid construct the facility in line with their obligations under the building lease, then upon completion of the building, the Council agrees to grant them a long lease of the site.
18. The principal terms for the lease of land are shown in Appendix A, but will be refined in the detailed lease. The main elements of the lease are
  - a. The term of the lease is 125 years, with Lessee only break options.
  - b. A premium for the lease is payable on completion of the lease, at a cost described in the Heads of Terms. This cost will be indexed upward in line with the consumer prices index (CPI) for the period from exercising the option to completing the lease.
  - c. Certain rights will be granted to National Grid, in terms of access, services, surrounding site maintenance, etc, but all subject to agreement with the airport operator in terms of safety and CAA compliance.
  - d. Easements for cable routing and services are to be provided, which will accommodate DC and AC cables for an offshore route from the converter station to the connection point at Chilling. There are also rights reserved for an onshore AC cable route within the Daedalus site boundary only, should an onshore route be necessary.
  - e. The lease requires the National Grid to contribute its share to the cost of estate management, via a service charge.
  - f. National Grid will reimburse reasonable costs incurred by the Council and compensate for loss of revenue arising from the works, where these are evidenced and where reasonable steps have been taken to avoid the compensation being necessary. The aggregate of compensation payable will be capped at a level to be determined after the technical studies have been concluded (but in advance of an Option Agreement being exercised).
  - g. National Grid will meet the Council's proper and reasonable professional costs associated with the various agreements.
  - h. Material changes to the facility in the future need to be supported by a further technical study, to provide continued assurance around the impact of the facility

on the wider area.

19. It is important to note that the heads of terms set out in Appendix A reflect the arrangements that the Council would enter into, as landowner of the site at Daedalus. It does not reflect any dialogue that the Council may have in its capacity as Local Planning Authority, and obligations that may arise from these. Such obligations would be documented in a Section 106 agreement with National Grid and be determined by the Planning Committee.

## **NEXT STEPS**

20. If the Heads of Terms are agreed by the Executive, then these will be exchanged with the National Grid, and work will proceed to agree the scope of work for the Technical Evidence Study.
21. The Council will seek expert advice to ensure that the scope of work is sufficiently detailed, and to oversee the appointment of a suitably qualified consultant to undertake the study.
22. The respective legal teams will also prepare the detailed terms of the Option Agreement, Building Agreement/Agreement for Lease, and Long Lease. These documents would only be completed if the ground investigation results are satisfactory to the National Grid, and the technical study satisfies the Council's requirements.
23. National Grid will be holding a series of information events in December at venues in Fareham and Gosport. The events will offer people a chance to understand and shape the proposals, and the feedback will be used to inform the design of the scheme. A further consultation period will then be held early in the New Year to inform a planning application, which is intended to be submitted in spring 2016.
24. Having secured the necessary consents, the National Grid would aim then begin the construction phase in 2018, such that the facility would be completed and on-line in 2020.

## **FINANCIAL IMPLICATIONS**

25. For a project of this scale and complexity, the Council (in its capacity as landowner) will require extensive expert advice and support from a technical, property and legal perspective. The Heads of Terms, however, state that all reasonable costs incurred by the Council will be met by the National Grid. Therefore, there should be no net financial implication for the Council, in this regard.
26. Consequential losses during the construction phase are also subject to compensation payable by National Grid, where the losses can be evidenced.
27. Finally, there will be a lease premium payable by the National Grid for the use of the Council's land at Daedalus. It is not possible to determine precisely how much the premium will be, as the site has not been defined in detail. However, in principle, it is intended that the premium would be used to further the delivery of the Council's Vision for Daedalus.

## **CONCLUSION**

28. The proposal to accommodate the converter station at Daedalus presents an opportunity to secure significant inward investment at the site, and will provide a source

of funding for some of the important elements of new infrastructure that were identified as needed in the Council's Vision for Daedalus.

29. As an important piece of national energy infrastructure, the location of the IFA2 converter station is limited by the location of the connection to the national energy network. While other sites may be geographically more attractive to National Grid, the Daedalus site represents the most appropriate feasible option, given its recognised status as a commercial development area.
30. As such, it is recommended that the Executive agree the Heads of Terms, as set out in the appendix, and a delegate authority to the Director of Finance and Resources in consultation with the Executive Member for Policy and Resources, to agree the detailed terms for each of the legal agreements.

**Enquiries:**

For further information on this report please contact Andrew Wannell. (Ext 4620)