

Decision on the benefits of the Olympics for London

Government Support for Decentralised Energy

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WHAT GOVERNMENT SUPPORT HAS THERE BEEN FOR DECENTRALISED ENERGY?

Direct financial support for decentralised energy has not materially progressed during recent years and does little for heat networks –

Market based mechanisms –

- Renewables Obligation and Feed in Tariff for use of renewable fuels

Business tax breaks –

- Climate Change Levy Exemption / Enhanced Capital Allowances

Nothing for heat networks –

- Apart from a tentative proposal to provide an ‘uplift’ under the Renewable Heat Incentive for networks carrying renewable heat

And until last year over-all government support for decentralised energy was unclear

More was on offer – the Household Energy Management Strategy (HEMS) Proposals envisaged a major role for decentralised energy in dense urban areas –

Scope-

- acknowledged that decentralised energy could provide up to 14% of UK heat demand

Proposed work streams –

- to substantiate evidence base particularly on fuel sources
- commercialisation – proposed measures to attract private sector investment through addressing project risks
- consumer protection – giving new consumers the confidence to connect

Proposed planning changes –

- new PPS

Zero carbon homes and non domestic buildings

- the role of decentralised energy in ‘allowable solutions’

NOW WE HAVE A NEW GOVERNMENT, DO WE HAVE TO START ALL OVER AGAIN?

The new government will not reject everything it has inherited, but pending new ministers announcing policy decisions, we have to be tentative about basing new actions on policies of the last government

But the Coalition Agreement and other statements give a good general guide about what to expect –

The Coalition agreement –

- there are measures which indicate a sense of direction

The Conservative Party Manifesto –

- support for decentralised energy

Power to the people – the decentralised energy revolution -

- although over 2 years old, not inconsistent with newer policy statements

In these early days, government silence does not mean dissent

The Coalition Agreement indicates a will to accelerate activity, rather than a radical change of course, for example –

- a full system of Feed in Tariff support for electricity
- increase in energy from waste through anaerobic digestion plants
- a Green Investment Bank
- a floor price for carbon
- reform of energy markets
- community owned renewable energy schemes
- creating green financial products to encourage investment

SO WHAT DO WE KNOW ABOUT GOVERNMENT SUPPORT FOR DECENTRALISED ENERGY?

In addition to the Coalition Agreement –

Conservative manifesto - ‘vote blue, go green’ –

‘we will take steps to encourage new low carbon energy production, including:

... giving local authorities the power to establish new district heating networks which use biogas and other low carbon fuels’

‘Power to the people’ –

‘we want to give businesses the incentive to meet their own electricity needs through establishing such large scale decentralised electricity generation .. and...to use that generation in order to enter local electricity and energy markets.’

THE DRIFT OF GOVERNMENT POLICY TOWARDS DECENTRALISED ENERGY MAY BE APPARENT, BUT WILL IT SUPPORT THE MAYOR'S PLANS?

It would be surprising if new government policies did not support the Mayor's decentralised energy target, but the question is how far that is followed through with measures which support the commercialisation of DE projects -

- the attraction of private sector investment and loan capital for decentralised energy projects -
- by means of constructing a commercial environment in which the risks and returns are matched, the risks being reduced to a level comparable to the rate of return achievable
- the objective being to reduce the risk of investment in decentralised energy schemes to a level comparable with other utility businesses, thereby attracting investment which on lower risk levels is satisfied with a lower rate of return

We cannot be sure yet but we can speculate, in particular how far will government policies help draw private sector investment and loan capital into decentralised energy projects by –

- helping to deliver secure stable and balanced heat demand to decentralised energy schemes generating positive cash flows over the life of the project
- incentivising the entry of producers into the decentralised energy market to establish and operate schemes

ARE THERE POLICIES SUPPORTING STABLE AND BALANCED DEMAND FOR COMMUNITY HEATING?

- **to secure long term ‘anchor loads’ delivering a base heat demand and revenue?**
 - dedication of public sector and other buildings as heat loads / brokering of heat loads by LAs - no specific statements yet, although intention to empower LAs may imply it
 - detailed govt. intentions re. zero carbon premises appear formative
- **to construct planning frameworks that create demand for decentralised energy – will PPS proposals be adopted or similar?**
 - no clear message as yet, but likely on account of renewables policy
- **to promote the competitive pricing of heat relative to the higher carbon alternatives?**
 - yes, proposed floor price for carbon
- **to create more public awareness of the benefits of decentralised energy projects?**
 - a dividend of LA energy master planning initiatives
- **to protect consumer interests and generate confidence in the performance and value of decentralised energy systems?**
 - industry codes already planned by the industry and London – govt unlikely not to follow or support

ARE THERE POLICIES TO INCENTIVISE THE ENTRY OF PRODUCERS INTO THE DECENTRALISED ENERGY MARKET?

- **to enable identification of DE schemes where risk / reward ratios add up?**
 - existing heat mapping / master planning in LAs – govt. likely to support local initiatives
- **to create confidence in the future growth of DE?**
 - background thinking in ‘power to the people’ - policy to promote renewable community energy schemes already stated
- **to use government sponsored financial support systems to drive investment in DE?**
 - RHI supported in principle, but being reviewed – will it include network cost uplift?
 - FiT to be extended – will help renewable CHP /DE
 - Green Investment Bank – a promising initiative, but its scope not yet clear
- **to secure planning support**
 - synergy with LA energy master planning
 - proposed PPSs?

Some guiding principles –

- early days – we need to watch and seek to guide govt thinking
- that government has not recently made much positive statement about DE does not mean it is not supportive
- decentralised energy is clearly on the agenda, but the specifics are unclear
- the role of local authorities will be crucial in heat mapping / energy master planning and facilitating projects
- already useful govt. objectives that potentially support DE eg: Green Investment Bank / review of energy markets (notably electricity)
- a key mission is to influence govt policy on DE by ensuring it addresses the barriers to commercialising DE schemes
- that is the key to delivery