Response to BERR / Ofgem
Greenwich Peninsula Regeneration Limited (GPRL)

We welcome the opportunity to respond to the important consultation from BERR/Ofgem on Distributed Energy. Our response focuses, in particular, on the challenges facing developers, who are responding to climate change and trying to minimise the impact of energy generation. Although the questions within the consultation are not within a developer's core area of expertise, we feel that a response is required to highlight the disincentives and barriers that developers face in mitigating climate change through the delivery of heat and power to consumers on a value-for-money basis.

Our response is based on our experiences at the Greenwich Peninsula development (a joint venture between Quintain and Lend Lease) where we have tried to create a viable, centralised heat and power scheme. To provide some background to the development, Greenwich Peninsula will become a new community with 10,000 homes and 325,000m2 of office and retail space (ca 24,000 jobs) together with educational and health facilities, built out over the next 15 years.

In September 2007, GPRL issued a request for proposals for a CHP solution for the development from key ESCO providers – the majority of whom we assume will be responding to this consultation. We intentionally invited responses from a range of different types of companies - from the large players to start-up companies - to ensure that we obtained the whole range of views and ideas. Unfortunately, none of the companies were able to provide GPRL with a proposal that met the development needs and generate an economic proposal in terms of capital deployed as developer. All of the responses either required GPRL to incur significant up-front capital expenditure with tenuous returns and/or to provide guarantees of a sequenced and chronologically tight programme of plot development. The latter is something that GPRL is unable to provide given planning blight issues.

We cannot understand why this was the case when, from our perspective, the ESCO would be provided with a captive market for heat and, even if electricity customers will ultimately be able to choose their supplier, the trends of customer switching mean that there should be sufficient certainty of revenue on a 'swings and roundabouts' basis provided the ESCO operates viably and charges at a competitive tariff. The responses from the suppliers indicated that the key issues were:

- Customers could not be guaranteed because the nature of the development means that it will be above electricity distribution and supply licence exemption levels (so not able to operate as private wire).
- The risk averse nature of some of the companies within the market who tried to pass as much financial risk over to the developer as possible. This contrasts with the assertion in the consultation about the ability of the larger players to spread risk and costs.

- The sale of electricity at wholesale prices does not cover the costs of generation. If the wholesale price from locally generated CHP could be increased through incentivisation then this would provide comfort in the long-term to the ESCO and improve the economic viability. We would highlight that the combination of a low price of carbon and free allocation means that the carbon pricing signal is currently far too weak to provide this incentive. Similarly, other embedded benefits are not properly recognised. Appropriate incentivisation might include a minimum wholesale price for power from this type of low carbon scheme (eg. in the form of a feed-in tariff indexed in some way to maintain a differential above prevailing higher carbon, non-DE wholesale prices).
- A partial alternative to this is to require cost-reflective use of system charging such that a short-haul tariff would reduce the cost to the ESCO and maximise the laws of physics.
- ROC and LEC eligibility and income are not guaranteed long-term and there is uncertainty over what happens when these are no longer applicable.

Additional issues for consideration by BERR and Ofgem which relate to dis-incentives to increasing the sustainability of a development through distributed energy:

1. Question 8 – we have seen a lack of competition within the ESCO market no doubt due to the complexity of the legislation and other factors. We received 5 responses, of which only 3 were from operators who could offer a complete package from a sound operational base.
2. Para 1.15 of the consultation states that the Government's zero-carbon homes policy provides motivation for the development and uptake of DE. However, we do not agree as this has actually created a barrier to Greenwich Peninsula being considered zero carbon. Code for Sustainable Homes Level 6 and Zero Carbon Homes wording contains reference to private wire in order for the building to be compliant. When quizzed, the BRE, on behalf of the DCLG, confirmed that 'private wire' follows the Ofgem definition. Consequently, any power coming from renewable technologies that goes onto the local distribution operator's network would not comply with the Code requirements. This therefore means that Code Level 6 will be impossible to achieve for Greenwich Peninsula and the Government's proposed Eco-towns. Consequently, should this become a mandatory requirement then house building will stop and the Government will not achieve the new homes targets of three million homes by 2020.
3. If a development on the scale of the Greenwich Peninsula is facing these sorts of difficulties with economic viability then small developments will really be struggling especially with the market delivering little by way of competition.
4. Cognisant of the above, BERR and Ofgem may like to use Greenwich Peninsula as an example project. GPRL would be supportive.
5. GPRL entirely understands the wish to protect customers. We too are in the development for the long term and have aspirations to create towns as businesses. Therefore, we also want to protect our residents. However, we would add that developers are also a customer of the incumbent electricity

providers as we pay for the new electrical network's on site and offsite capacity. The current licensing and, in particular, non-contestable works provisions do not offer anywhere near adequate and effective protection to this customer.

Finally, climate change is a global issue and the UK proposals that are in place at the moment are no more than a stepping stone to making an impact. However, it must be remembered that developers will only build as long as a project is viable. As soon as relevant parameters change (whether through market conditions, legislation or planning obligations), a development may cease to be economic and may be put on hold indefinitely. GPRL are striving to create a sustainable community, but we (like other developers) only have finite resources and climate change mitigation cannot be delivered by new homes alone. There is a much larger energy value chain all of which has its part to play in achieving sustainability for the future.