

16 April 2008

Dr Stephen de Souza  
Director Distributed Energy  
Renewable Energy and Innovation Unit  
Department for Business, Enterprise and Regulatory Reform (BERR)  
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1 Victoria Street  
London  
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Dear Stephen

Thank you for agreeing to accept this submission from English Partnerships to the OfGEM/BERR distributed energy consultation 295/07 and the BERR Heat call for evidence.

English Partnerships is at the forefront of the delivery of sustainable communities throughout England. We are charged with the responsibilities of rapidly delivering new homes and communities, whilst ensuring that the environmental impact of our work makes a positive contribution to sustainable development.

The government has set us challenging targets for delivery of carbon reductions in new housing. This represents a huge step-change in our approach to the provision of sustainable heat and power. We and the development industry are now actively seeking ways of incorporating a high proportion of renewable, distributed energy into our schemes. We are working hard to understand the opportunities and quantify the risks and costs involved. Hence the issues raised in the above consultations are extremely important to us.

English Partnerships is currently undergoing a review of its development portfolio in order to develop our future energy strategy, which will determine our approach to distributed energy. We look forward to sharing the results of this work with you and contributing towards your ongoing work in this area.

The key issues which English Partnerships believes should be addressed with regard to distributed energy are:

- The risks and opportunities of renewable distributed energy schemes are not yet fully understood by many stakeholders.

English Partnerships is investigating potential commercial and technical templates to enable us to assess the various approaches to the delivery of renewable and distributed energy in our portfolio. We will be working with our various stakeholders to better understand the appropriate allocation of risks and to manage implementation issues.

**We firmly believe that collaboration is needed in this area and that the public sector should work collectively to disseminate best practice, tools and techniques.**

- The current regulatory environment is disjointed and does not support the sustainable expansion of distributed energy.

Distributed energy includes the provision of both heat and power, whether through local networks or building integrated renewables. At present, there is an established regulatory framework for the electricity and gas markets and renewable electricity production is incentivised by the Renewables Obligation. By contrast, there is no regulation of the heat market or incentivisation of renewable heat. This can create a perverse incentive to waste heat so as to allow renewable power to be sold.

To an extent, the absence of a regulatory framework for district heating networks drives up the cost of setting up distributed energy schemes, since the necessary provisions for consumer protection and transparency have to be re-created each time. A similar comment can be made in relation to The Class Exemption Orders for electricity distribution and retail supply which allow some operators to avoid the requirements for electricity licences altogether.

**English Partnerships considers that the review of electricity licence provisions to facilitate distributed energy should focus on creating an appropriate, inclusive licensing regime that includes distributed energy and properly incentivises carbon abatement. We further contend that the incentivisation of renewable heat needs to be undertaken in conjunction with the incentivisation of renewable electricity, so that the regulatory framework is properly aligned.**

- The economics of financing and operating distributed energy schemes that use renewable energy are apparently not yet seen as sufficiently financially attractive to investors to stimulate rapid growth in this market.

The high, up front cost of creating new distribution infrastructure for distributed energy can be a barrier to investment, particularly when the revenues from such schemes are slow to accumulate, as is the case in many of the larger, phased residential developments. Private sector investment is critical to the delivery of distributed energy and at present, the risks and uncertainties surrounding timing and scale of revenue streams are a deterrent to otherwise viable schemes.

**English Partnerships considers that there is a short-term catalyst role for the public sector in the sponsorship of distributed energy schemes and that this role would be more effective if supported by efforts to standardise the market for combined district energy services. This will allow the public sector to present pre-incubated energy schemes to the market in a form that is readily recognisable and bankable and will also offer the public sector an appropriate exit strategy, thus making best use of public funds.**

Our aim is to show leadership in this area and to involve others in public and private sector to support our work towards sustainable low-carbon communities.

I would be happy to discuss these issues with you further and hope to catch up with you soon.

Yours sincerely



**Jane Forshaw**  
**Head of Environmental Policy**  
**English Partnerships**