

Utilicom Group Response to the RPI-X@20 Emerging Thinking Consultation on behalf of:

Ø Utilicom Limited

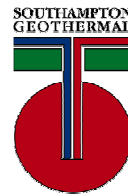


Ø Southampton Geothermal Heating Company

A partnership between:



and



Ø Birmingham District Energy Company

A partnership between:



Ø Bloomsbury Heat and Power



Ø Gower Street Heat and Power



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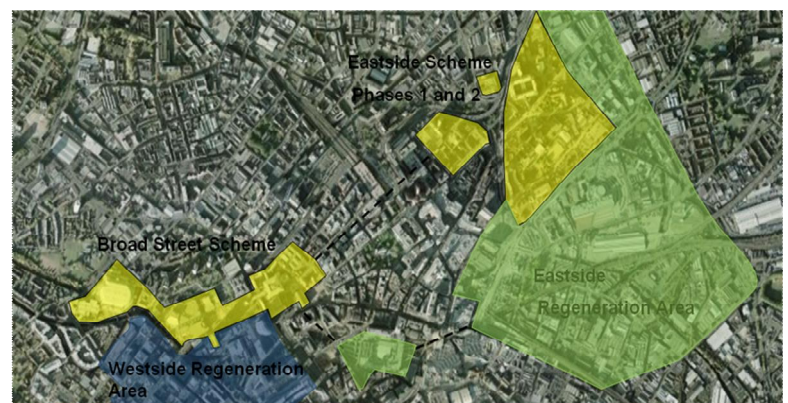
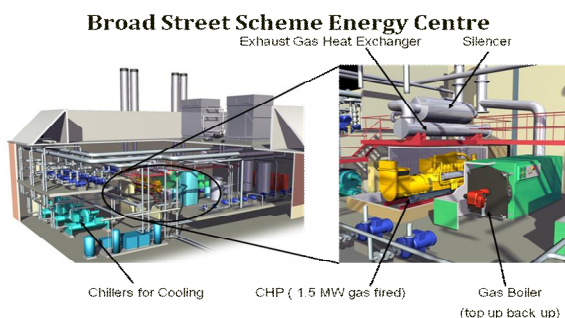
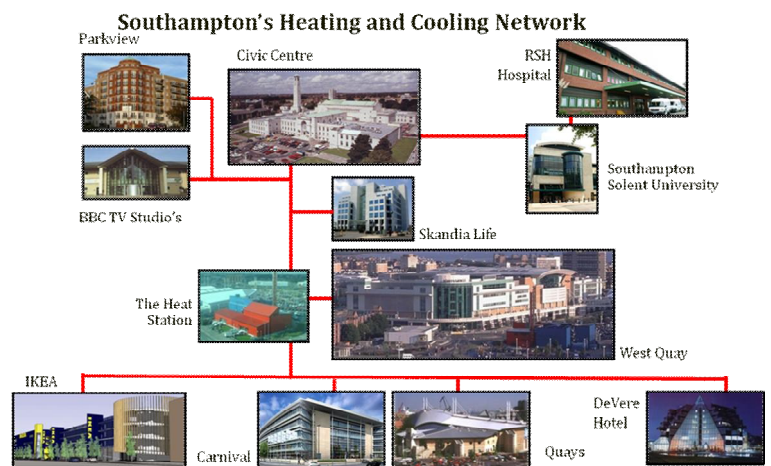
April 2010

Summary of Utilicom Group Limited's Response

The Utilicom Group is a nationwide energy services company (ESCO) operating both large and small scale district energy schemes utilising low carbon energy generation technologies for nearly 30 years in the UK.

Currently this includes gas fired combined heat and power and geothermal energy but is being expanded to include biomass and heat from waste facilities.

Our schemes range in size from city centre wide such as in Southampton and Birmingham to smaller schemes such as the one shown in the image below in Hatfield. This scheme utilises a private wire and heat network to supply energy to 270 homes over a 25 year contract period with annual savings in energy supply costs compared to market levels.



Chapter 1

Question 1: Do you think our desired outcomes for the future regulatory framework are appropriate? Are there any we have missed?

Utilicom acknowledges that Proposition 1 in the Consultation document does clearly identify the requirement to facilitate “delivery of a sustainable energy sector”. Given this central requirement, Utilicom suggests that the desired outcomes listed in point 1.8 of the Emerging Thinking Consultation document are appropriate but lack sufficient weight when referring to environmental considerations; it seems insufficient to aim for delivery only of the “binding GB environmental targets” when wider *facilitation* of sustainable energy supplies is understood to be a central aim of the reforms.

Question 2: Do you agree that we need a fundamental change to the existing 'RPI-X' frameworks to ensure these outcomes are delivered?

Utilicom agrees that without a change to the existing frameworks, delivery of a sustainable energy sector could be seen as acting in opposition to the current requirements, which primarily concentrate on cost.

Question 3: Do you think the suggested new framework is the best way of delivering these outcomes in the future? Are there any aspects you would change? Have we missed any key aspects?

Utilicom does not intend to respond to this question.

Chapter 2

Question 1: Do you agree that a new regulatory framework should focus on delivery of desired outcomes?

Utilicom agrees that an outcome based approach could reduce the likelihood of unintended consequences resulting from changes to the legislation. However, if the regulatory framework concentrates on delivery of outcomes, there must be an emphasis on clear, measurable achievements which can be demonstrated by the network operators. Without proactive involvement of the Regulator, alongside unambiguous goals and performance incentives for the network operators (positive and/or negative), it seems unlikely that best performance could be achieved.

Furthermore, stability will be a key issue in attracting investment, particularly in low carbon infrastructure. For this reason, due care and consideration must be given to any repercussions of adjusting the regulatory framework, for the purposes of meeting desired “outcomes”. Any alterations to the regulatory framework would therefore be expected to require adequate consultation with stakeholders, to avoid any unintended consequences which might otherwise negatively impact on investment in low-carbon infrastructure.

Question 2: Do you have any comments on the categories of outputs related to these outcomes?

Utilicom recommends that in addition to “delivery of low carbon energy services” being an output category, that sufficient emphasis is also placed on enabling third parties to deliver low carbon energy services. The burden of delivering low carbon energy services cannot be wholly addressed by the network operators alone; access of specialist Energy Services Companies (ESCOs) to the appropriate networks is vital if low carbon performance is to be achieved on any meaningful scale.

Question 3: Do you have any comments on how these outputs should be incorporated into the new regulatory framework?

Utilicom does not intend to respond to this question.

Chapter 3

Question 1: Do you agree that it is appropriate for network companies and Ofgem to improve their engagement with stakeholders as a way of improving the quality and legitimacy of decision making? Do you have any ideas on how to improve engagement by network companies and Ofgem?

Utilicom agree that stakeholder engagement is key, especially when considering an outcome based approach. Utilicom recommends engagement with stakeholder representative groups such as the recently launched UK District Energy Association (UKDEA), to ensure that the potential for realistically enabling low carbon generation is maximised.

Question 2: Do you think we should consider introducing a third-party merits-based right to challenge our final price control proposals?

Utilicom does not intend to respond to this question.

Chapter 4

Questions 1 – 10

Utilicom does not intend to respond to these questions.

Chapter 5

Question 1: Do you agree that a new regulatory framework can deliver our desired outcomes within the existing industry structure?

With clear, measurable aims of the legislation, alongside confidence in the stability and longevity of the legislation, Utilicom believes that a new regulatory framework can deliver the desired outcomes.

Question 2: Do you agree that it is appropriate to encourage network companies to work with others to identify cross-sectoral solutions to the challenges the sector faces?

Utilicom believes that network companies should work with others to identify cross-sectoral solutions. Engagement of appropriate third parties brings in relevant expertise which can be of key importance in developing appropriate solutions to the sector's challenges.

Question 3: Do you agree that the regulatory framework should ensure energy network companies facilitate effective competition in energy services?

In the light of recent developments following the Citiworks ruling (regarding private wire networks); to ensure continuing benefit from low carbon generation – which often relies on private wire, licence exemptions and/or use of small segments of the distribution network – great care must be taken to ensure that:

- Use of System charges must be developed as transparently as possible,
- Use of System charges must be as low as possible, taking into account the small extent of distribution network that might be used,
- low carbon generators, which often rely on a particular size of customer base to maintain viability, should be protected from unfair predatory pricing, wherever possible. Predatory pricing is an anti-competitive practice where larger-scale energy suppliers could sell energy at a low price to remove a competitor (such as the operators of a low carbon energy scheme). The low pricing is only maintained for as long as necessary to remove the competitive threat and as such is unsustainable.

Funding for low carbon energy schemes with private wire networks is often predicated on the assumption that third parties do not have access to these networks. Consumers are protected by long-term indexation mechanisms which guarantee favourable prices when compared to conventional alternative energy supplies. Allowing third parties access to private wire would enable them to undercut the low-carbon generation with unsustainable predatory pricing. Therefore, the currently proposed requirement to guarantee third party access, as a result of the Citiworks ruling, places the availability of funding for many low carbon energy schemes at risk. This damages the UK's ability to meet both carbon emission and fuel poverty objectives.