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DECENTRALISED ENERGY SCHEMES – WHAT'S ALL THE FUSS ABOUT?

- Planning conditions are increasingly requiring the use of decentralised energy schemes
- Developers will need to factor these schemes into their wider development planning
- How to address some of the key issues and challenges

What's it about?

Decentralised energy schemes are nothing new, but they are becoming a much more prominent consideration for developers. The schemes come in all shapes and sizes; involving combined heat and power (CHP), district heating and cooling, waste to energy and/or renewables such as ground source or air source heat pumps, and serving one large single commercial entity, entire communities, multiple residential customers or any combination in between. However they all have one common theme; that the energy is generated entirely or partially off the main grid.

Mitigating the effects of climate change, improving energy security and driving down the cost of energy (both economic and social) is an increasingly important issue for policy makers on a global, European and national stage. Decentralised schemes are seen to be part of the solution as they can provide cost-efficient energy using more sustainable technologies and improve energy security.

Why does it matter?

Including such a scheme within their development planning was not something a developer would need to have in mind previously unless it specifically wanted to.

However, local authorities have altered the way they use their planning powers with many now expecting developments to contain some renewable or sustainable generation. The London Plan, for example, has an expectation that 25 per cent of the heat and power used in London will be generated through the use of localised decentralised energy systems by 2025 and so it requires boroughs to develop proposals to establish decentralised energy networks, requiring developers to prioritise connection to existing or planned decentralised energy networks where feasible.

Whilst there are challenges in delivering these types of schemes, businesses are seeing the benefits they can bring in terms of achieving environmental standards such as the Code for Sustainable Homes and BREEAM, plus more energy efficiency and lower carbon emissions. Some are going further and setting up their own Energy Services Company (ESCos) to run the schemes thereby providing an additional revenue stream.

Now what?

Some issues to look out for include:

- ensuring that the local planning authority does not prejudice wider development imperatives in setting decentralised energy planning conditions
- complex issues around requiring tenants (especially vulnerable/social housing tenants) to take heat and/or electricity from the ESCo
- how best to deal with counterparty risk, both in terms of the ability to pay and assurance that there will be long term demand

- convincing tenants that supply is reliable and cost efficient and ensuring system resilience without costly over-engineering
- synchronisation between the development of the network and capacity reservation.

Some further challenges new developments face will be because they are connecting in to older schemes which, sometimes, were not designed with expansion in mind. That creates technical and practical issues such as the ability to lay pipes and cables and reduced efficiency where the energy centre is sited far from the demand with the result that heat is either lost or unusable. However a well-designed scheme can be more environmentally sustainable and more cost efficient than using conventional gas or electricity, can provide long term energy security to tenants and also offer investors an attractive long term investment opportunity.

For individual properties and concentrated multiple occupation schemes, developers should not ignore ground source and air source heat pumps. Air source is now very affordable with negligible space and infrastructure requirements and produces a very low running cost, as well as attracting a Renewable Heat Incentive contribution that will more or less cover the capital cost over about 8 years.

The team at Addleshaw Goddard LLP will be happy to discuss the above with you. Please contact Joe Wilkinson or Paul Dight

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