

12 December 2011

Rt Hon Chris Huhne MP
Secretary of State for Energy and Climate Change
3 Whitehall Place
London
SW1A 2AW

Dear Secretary of State,

London and national energy strategies

The London Assembly Environment Committee will shortly publish a report on national and London energy policy, *Plugging the Gap*. An advance copy is enclosed for your reference – please note that this report will not be available to the public until Tuesday 13 December, so please do not circulate it beyond your Department until then.

This report notes the scale and speed of the investment necessary, in both energy generation and energy efficiency, to meet carbon-reduction targets, to secure the UK's energy supply and in particular to ensure that there is not a gap between electricity supply and demand in the UK grid.

London, which is responsible for 13% of the UK's electricity consumption but currently has only about 2% of its generating capacity, must play a major role in these efforts. The Mayor of London has recently published his statutory Climate Change Mitigation and Energy Strategy, setting out ambitious goals to improve London's energy efficiency, to significantly increase London's electricity generation, and to cut London's carbon emissions.

The Committee's report analyses the Mayor's strategy and national policies, including the recent Energy Market Reform White Paper and the current Green Deal proposals. It makes recommendations to the Mayor and to Mayoral bodies, but significantly it also finds that there are a number of ways in which national policies could be improved to work better alongside the Mayor of London's strategy.

Decentralised energy generation

The Mayor's strategy proposes that 25 per cent of London's energy needs (over 2 per cent of all UK energy needs) should be met by decentralised energy generation within London by 2025. The bulk of this would come from medium and large-scale combined heat and power projects, requiring district-scale or wider heat pipe networks.

There has been considerable discussion of the potential of heat pump technology. However, in urban areas like inner London, district heating may often be a more efficient option. Much of London's building stock is not yet heat-efficient enough to allow heat pumps to operate most effectively, and ground-source heat pumps need an area of land in which to bury their source pipes - in short supply in heavily built-up areas. Conversely, district heating is particularly efficient where there is a high density of heat demand.

Therefore, district heating is an efficient and lower-carbon option in many cases in London, including where the initial heat source includes a modern conventional power plant with heat recovery. Installing district heat networks in the short to medium term, using conventional generation, is important to the rapid roll-out of lower-carbon heat, and provides a ready infrastructure into which renewable or other advanced generators can be installed as the technologies come to maturity.

However, the initial capital costs of installing district heat pipe networks provide an entry barrier. The financial support offered by the Renewable Heat Incentive would significantly help to overcome this, but renewable district heat networks are not yet ready to go ahead at sufficient scale. Therefore, the report recommends that RHI support be offered to district heat and power schemes that use some renewable energy or could do so in future.

Report recommendation 3: The Government should help to ensure that support is available for close-to-market decentralised energy infrastructure. In particular, it should in 2012 review the Renewable Heat Incentive with a view to including district CHP schemes with partial and/or potential renewable energy sources.

Energy efficiency and the Green Deal

The Committee welcomes the proposed Green Deal scheme, which will make a major contribution towards climate change targets. The GLA has developed an effective programme for promoting the take-up of domestic energy efficiency and low-carbon microgeneration retrofitting - the RE:NEW scheme. This has provided an important model for the Government's Green Deal programme, but it appears that crucial aspects are not yet fully included in the proposals - the whole-house approach and street-by-street promotion with strategic targets.

Without a whole-house approach, take-up of more advanced measures and in particular microgeneration is unlikely to be sufficient to enable the Green Deal to achieve the necessary carbon savings. It does not appear from the current Green Deal consultation that the financing of microgeneration measures will be included within the Green Deal. If it is left to individual providers whether and how to install and/or finance microgeneration alongside a Green Deal package, consumers will face very complex options, and difficulty comparing providers that may differ on both price and finance arrangements. This seems likely to deter the take-up of renewable microgeneration.

London's experience with RE:NEW also shows the benefits of a street-by-street promotional strategy, both in maximising take-up among households that are not natural first adopters, and in achieving economies of scale by concurrently retrofitting a number of properties of similar type in one location. This targeted approach also offers the potential to dovetail with local authority carbon-reduction strategies and with crucial efforts to tackle fuel poverty.

London has received a far less than proportionate share of energy efficiency works under the CERT scheme over the past four years. The London Assembly has unanimously called for energy companies to fulfill these obligations equally across the UK, but CERT is soon to be replaced by the ECO. It is important that regional targets are applied to the ECO from the outset, so that

London's large share of the country's solid-wall properties and fuel-poor households are adequately reached.

Report recommendation 5:

The Government should adopt the London RE:NEW programme as a model for the Green Deal:

- the Green Deal should adopt a whole-building approach, offering a simple, cost-effective package of energy efficiency and microgeneration measures
- the Green Deal should optimise long-term take-up by ensuring that its market mechanisms incentivise an area approach, including street-by-street promotion and regional targets for the Energy Company Obligation from the outset

The Committee is aware of campaigns from the social housing sector for ECO to be made available to properties in that sector. It is important that energy efficiency measures reach all types of housing.

Report recommendation 6:

The Government should ensure that Registered Social Landlords are given sufficient subsidy, whether through the ECO, Decent Homes Programme, or other means, to reduce their tenants' energy demand

The Capacity Mechanism

The Committee also wishes to input on the consultation opened in the Energy Market Reform White Paper on the Capacity Mechanism. To hold a reserve of additional generating capacity, normally standing unused, would be very costly, and would require that the national transmission infrastructure likewise be maintained at a greater capacity. However, to use a capacity mechanism on the 'demand side', including responsive deferral of consumption by certain users and despatchable distributed generation, would not require the same investment in peak-demand-only infrastructure and would help to support new technologies and other low-carbon investment, and contribute to the establishment of the UK smart grid.

Report recommendation 7:

The Government should use energy market reform measures, in particular the Capacity Mechanism on which the White Paper consults, to ensure there are revenue streams to incentivise and enable 'demand-side response', including local generation, to relieve the load on the national grid at peak times

I look forward to hearing your response to the above recommendations, and to any other aspects of the Committee's report.

Yours sincerely,

Murad Qureshi AM

Chair of the Environment Committee