

ENVIRONMENT CAPITAL SCRUTINY COMMITTEE	Agenda Item No. 5
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Report of the Executive Director - Strategic Resources

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THE DELIVERY OF RENEWABLE ENERGY

1. PURPOSE

- 1.1 To enable the committee to consider the strategy for the delivery of renewable energy

2. RECOMMENDATIONS

- 2.1 That the committee is asked to comment on the strategy proposed for the delivery of renewable energy and major energy efficiency projects.

3. LINKS TO THE SUSTAINABLE COMMUNITY STRATEGY

- 3.1 The area supports the delivery of the Council's Environmental Capital ambitions.

4. BACKGROUND

- 4.1 At the meeting of Cabinet on 13th June 2011 it agreed to authorise the Executive Director – Strategic Resources to establish a limited company as an energy services company (ESCO) to be wholly owned by Peterborough City Council.

It also authorised the Executive Director – Strategic Resources to award the contract for design, supply, installation and maintenance of Solar Photovoltaic (PV) panels on the roof of the former Freemans building at Ivatt Way, Westwood, Peterborough, PE3 7PA.

- 4.2 The following sets out some brief details around the ESCO.

4.3 What is an ESCO?

- 4.3.1 Energy Services Company (ESCO) is a broad term used to describe an independent agency that develops, installs, and finances projects designed to improve energy efficiency, usually featuring sustainable energy sources. ESCOs are becoming an increasingly important tool for local authorities to take a more active role in developing the UK's low carbon infrastructure.

- 4.3.2 An ESCO usually takes the form of a limited company, although other delivery vehicles are possible. It may be wholly owned by the public or private sector, or a joint venture. A greater degree of local authority ownership allows the authority to secure additional objectives such as the alleviation of fuel poverty, rather than pure profit.

4.4 Why establish an ESCO?

- 4.4.1 It is generally accepted that large, centralised energy generating stations waste a considerable amount of the energy they produce. By locating energy production close to where it is used, energy can be produced more efficiently, reducing the impact on the environment. Changes to

regulations, concern about climate change, growing costs of traditional energy, together with the opportunity to make money from low and zero-carbon energy are increasingly focussing attention onto decentralised energy.

- 4.4.2 The council therefore established an ESCO to pursue the provision of low and zero-carbon energy schemes. The intention is to produce and supply energy, of various types, but initially the main supply source would be through photovoltaic cells (PV), commonly known as solar energy. In the future the council will look at other sources, for example wind. The energy produced will be made available for use in the Peterborough area, both by domestic and business users. One key advantage of this is that it allows everyone to potentially have access to energy from renewable sources, including those for whom domestic solar panels are not an option, for example those who live in flats, or whose roofs are unsuitable. This is an important benefit that supports Peterborough's status as Home of Environment Capital.
- 4.4.3 Another important area for an ESCO's operation is that of the delivery of energy efficiency. It therefore aims to ensure that less energy is used and if it is needed to be used then renewable energy is sourced.
- 4.4.4 Following the government changes to Feed in Tariffs (FiTs) in July 2011 the development of PV at the former Freemans site was limited to approx. 200kw.

5. KEY ISSUES

- 5.1 The strategy around the delivery of renewable energy has the following main features:

A) Definition of Renewable Energy:

Renewable energy is energy which comes from natural resources such as sunlight, wind, rain, tides, and geothermal heat, which are renewable (naturally replenished).

The mainstream forms of renewable Green energy are as follows :

- Wind power
 - Hydropower
 - Solar energy
 - Biomass
 - Biofuel
 - Geothermal energy
- B) In addition, the electricity from the Energy from Waste facility can be classified as green energy (per government definitions).
- C) The delivery of renewable energy supports directly the Council's Carbon Reduction Commitment (CRC) (see item on agenda).
- D) Funding:
- Department of Energy and Climate Change (DECC) funding exists in the form of Feed in tariffs (Fit), or Renewable Obligation Certificates (ROC's) .
 - An alternative would be the utilisation of carbon tax credits.
 - Invest to save budget and mainstream capital programme funding (typically via Public Works Loans Board)
 - Third party contributions including planning obligations
 - Private equity funding
 - Other Public funds

- E) Procurement – governed largely by European procurement rules and Cabinet Member Decision Notice (CMDN) process.
- F) Aim of strategy: to maximise third party funding and invest to save monies to enable the rollout of renewable energy across the area at no cost to the taxpayer and where possible generating surplus income that can be utilised in further areas.
- G) The future for the council is dependant on the rollout of renewable energy and the delivery of energy efficiency measures such as an Energy performance contract the aim is to enable the council to become a “Micro Generator”.

5.2 In order to deliver the above strategy it is necessary to deal with the following key issues:

- Procurement of services to enable the delivery of renewable technologies. At present a contract is in place to deliver PV installations for 4 years. Further contracts are needed for other technologies
- Managing the funding via DECC for feed in tariffs. Since the spending review 2011 it is clear that the treasury funding limits are driving the support for renewable technology and in particular the following are the key drivers and constraint mechanisms in place or are being consulted about:
 1. Aggregation limits that once exceeded will reduce the FiT to 80% of the standard tariff value;
 2. Future reduction in FiT's that will either apply at points in time or earlier, when national build out levels are achieved, to avoid breaching treasury spending limits; and
 3. Future increase projections of RPI and CPI
- Evaluation of assets and planning considerations to deliver renewable energy
- Ensuring that the funding and income streams for projects pass financial tests
- Ensuring robust gateways are in place from concept through to delivery
- Availability of third party funding for projects
- Decisions on whether the council should develop or buy renewable facilities or both

5.3 The council has established the ESCO – Blue Sky Peterborough Ltd. There are also key considerations that are needed to be evaluated in respect of ESCO:

- At what point should the ESCO be involved?
- Should the ESCO own assets or income streams?
- How is the relationship with the council best constructed to minimise or eliminate any tax implications?
- How would the ESCO trade energy?
- How does the ESCO relate to major energy suppliers when trading or at the point it becomes a micro generator?
- How can the ESCO be best utilised to deliver an energy performance contract
- What should the role of the ESCO be in the ‘Green Deal’?
- What funding can the ESCO attract and what necessary Special Purpose Vehicles (SPV's) are needed to deal with appropriate funders and projects
- How and who does the ESCO work with across the public and private sectors?
- How can the ESCO generate further income to the council around business development?
- Should the ESCO be involved in major growth projects across the city?

5.4 The priority for development at this stage will be solar and wind. Other sources will be examined over the next 12 months.

5.5 The process for accessing Invest to Save monies was adopted as part of the budget. The first access to these monies is being progressed via a CMDN to enable the delivery of up to 50Kw build out on the schools portfolio. This robust process will be utilised for further contract awards subject to achieving the ‘golden rules’ set out in the invest to save budget criteria.

5.6 The development and delivery of renewable energy is a complex issue. The aim of this report is the first step in enabling the Scrutiny Committee to consider some of the high level issues around the strategy.

6. IMPLICATIONS

6.1 The delivery of the strategy and associated actions is within the context of the Council's approved Medium Term Financial Plan 2012/13 to 2021/22.

7. CONSULTATION

7.1 Internal only with the exception of that undertaken as a result of the consideration of this strategy within the MTFP budget consultation.

8. NEXT STEPS

8.1 It is proposed that a further report is presented back to the committee in 12 months time.

9. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 None

10. APPENDICES

10.1 None