

Security of supply - Energy

To-date sustainability, in regard to commercial property, has largely centred on energy efficiency and green building certification. While this is important in terms of reducing carbon emissions, the focus is starting to shift towards the challenge of securing services supply.

It is largely assumed that going forward resource availability, delivery constraints, costs and legislation are all set to increase. As a result the future supply of low cost energy together with utility services (water and waste) has been brought into question, highlighting the importance of building and occupational efficiency. As the disruption of energy supply and utilities can have significant impacts on businesses future growth and performance aspirations, it is this, and not necessarily efficiency in itself, that will drive the sustainability agenda forward.

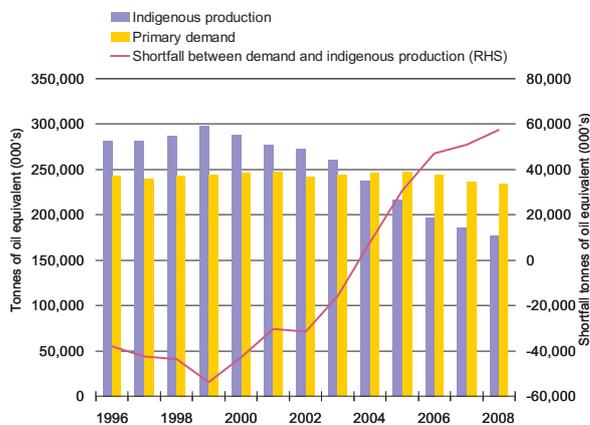
In the case of energy, the business cost associated with energy supply disruption can be significant. For example, a client recently cited a case where loss of energy supply at one of their sales centre's in the South West cost the business over £250,000 in lost sales over a two day period. While disruptions to energy supply are relatively rare at present, they are set to become more frequent. Investment funding constraints for new energy assets to replace existing plant and planned refurbishment and integration of renewable energy technology are expected to increase the frequency of service interruptions. Impacts on global energy supply streams due to political and/ or military conflict in regions of prime energy production could generate the most significant disruptions as the UK's reliance on imported primary fuels is set to continue. Since 2004

the UK has been a net importer of primary fuels with an average shortfall between indigenous production and demand of approximately 39 million tonnes (oil equivalent). This continued resilience will also have implications on energy costs, which has also been driving the issue of building efficiency.

Since 2003 energy prices have increased by over 80%, with future rises forecast due to rising transportation costs associated with fuel importing and funding requirements in order to deliver the Government's new generation of nuclear plants. For many businesses this increase in cost will be compounded by the participation in the Carbon Reduction Commitment (CRC). For example, by 2013 this could equate to an additional cost of £857,500 per annum for a 250,000 sq ft office building*. While the issue of energy supply will be more pertinent to occupiers, developers/ investors will also need to address these issues to ensure properties are attractive to tenants and in order to maintain investment values.

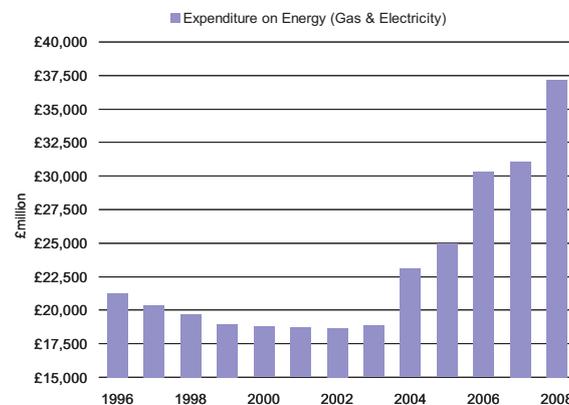
So what can occupiers and developers/ investors do to limit/ mitigate the impacts associated with energy supply disruption? There are a number of options available, all of which are detailed in the table on the following page. What is key is the need to take a strategic approach to ensuring continued energy supply, and in turn improve building efficiency. It will be this approach that will limit the impacts associated with any disruption and ensure on-going building operation, whilst also reducing energy costs. For developers/ investors it will ensure that properties are attractive to occupiers and in turn can hold their value.

UK Energy demand and production



Source: DECC

Expenditure on energy (domestic & commercial)



Source: DECC

*Note: This figure is based on known carbon allowances and current forward curve analysis and equates to £3.43 per sq ft. For further information on the CRC scheme please see our 2008 CRC note available at www.savills.co.uk

Sustainability Briefing

Strategic approach to securing energy supply and improving efficiency

Developers/ investors	Occupiers
Include innovative design elements as part of development planning application requirements (LDF targets; PPS1 and PPS22) that help to improve energy efficiency and reduce reliance on national grid.	Identify predicted energy demand scenarios and operational impact on risk register associated with loss of energy supply.
As part of new development and refurbishment projects identify key improvements in energy efficiency through building design, orientation and building fabric performance to improve natural ventilation and heating and reduce reliance on mechanical cooling.	Continuous review of business impacts associated with energy supply availability and market price volatility.
As part of standby generation installation strategy identify wider benefits and contributions from renewable/ Low & Zero Carbon (LZC) technologies and decentralised grid supply contract mechanisms i.e. peak tariff avoidance (TRIAD), standing reserves.	Secure Green Leases and buildings with excellent energy and sustainability credentials to realise lower operational costs with dual benefit meeting CSR requirements.
Scope out and implement energy performance contracts as part of building specification (that deliver beyond Part L minimum standards). and mechanical plant operation. Inclusion of energy efficiency requirements, Operations & Maintenance (O&M) deliverables and Power Purchase Agreements with an energy generator would also be beneficial.	Engage with landlords to invoke performance deliverables associated with the service charge in terms of building services and HVAC plant. Through contract agreement provision, ensure the accurate monitoring and target reporting in terms of energy and sustainability performance. Request transparency of metering data against energy and utilities expenditure budget/ forecast reports.

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