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OFGEM CONSULTS ON WAYS TO CLEAR PATH FOR LOCAL GENERATION

- Initial proposals aim to reduce barriers to growth for power stations connected to regional networks, known as distributed energy
- Distributed energy can significantly reduce losses and carbon emissions and help to improve security of supply
- But changes to regulation must maintain protection for customers and encourage technological innovation

Ofgem has today (Tuesday) launched a consultation on a range of options to remove unnecessary barriers for distributed energy projects. A working group set up by Ofgem and Government has been meeting since June this year to identify barriers and develop solutions.

The joint consultation with the Department for Business, Enterprise and Regulatory Reform (BERR) outlines options for modifying the current regulatory arrangements so that they are more suitable for distributed energy, such as Combined Heat and Power (CHP) projects and small-scale renewable generation.

There are already examples of successful distributed energy projects operating throughout the UK. These are mainly to business rather than domestic customers. However, the Aberdeen City Council CHP scheme which supplies heat to neighbouring homes, is an example of how domestic schemes can not only reduce carbon emissions but also cut fuel costs helping to reduce fuel poverty. Reducing barriers to entry for such projects will have wide-ranging benefits for the UK energy market.

Distributed energy can help to reduce the overall carbon footprint of the energy system by reducing the losses associated with transmitting electricity over long distances and by reducing the size of the transmission and distribution networks and their environmental impact.

Energy Minister, Malcolm Wicks, said:

"Government has made clear that we want distributed energy to be able to compete alongside the conventional alternatives. Through this consultation we are showing that we mean business. We want to ensure that the regulatory system is fit for purpose; cutting costs and reducing burdens so that new and smaller players can plug into the electricity system and play their part in a lower carbon future."

Ofgem chief executive Alistair Buchanan said:

"Ofgem, like the Government, is committed to ensuring that the current regulatory arrangements do not stop innovation and the growth of more distributed energy projects. These projects can be an effective way for communities to work together to reduce their energy usage as well as their overall carbon footprint. This could lower their bills and, in some cases, reduce fuel poverty.

“We want to create opportunities for everyone – not just the existing big energy companies - to try out new technologies and commercial arrangements in a bid to discover the most cost-effective ways of reducing carbon emissions within the competitive energy market.”

The options set out in the consultation look at measures that could be implemented in the short term and the long term. It discusses a wide range of options including:

- making it easier for local schemes to sell small amounts of electricity in the wholesale market by considering if more purchasers are required in the market
- putting more pressure on Distribution Network Operators (DNOs) to charge in a way that fairly reflects the costs and benefits of distributed generation
- inviting electricity companies to come forward with specific proposals to trial ideas that will benefit distributed generators, and
- making it easier for small operators to be licensed, by allowing the more complicated and costly licensing obligations of being licensed to be sub-contracted to another larger licensed supplier.

Over the next few months Ofgem and BERR will consider responses to the consultation and look at how to implement the preferred options. A detailed implementation plan will be published in mid-2008.

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Notes to editors

1. The Aberdeen City Council (ACC) Combined Heat and Power (CHP) scheme was initiated by the local authority to improve the housing stock and to assist in reducing fuel costs for tenants and others thereby mitigating fuel poverty. The scheme was not procured directly by ACC. An energy service company, Aberdeen Heat & Power, was set up to deliver the scheme to involve appropriate expertise and to ensure tenant and other community participation in the delivery of the scheme.
2. The CHP scheme comprises 288 flats in four multi-storey buildings. The flats had electric storage heating installed in the 1970s and 70 per cent of the residents were estimated to be in fuel poverty. The scheme is based on a 210kW (electric) gas-fired CHP unit and 2x700kW (thermal) gas fired boilers for peak load and back-up. Hot water is distributed to the four blocks via an underground pipe network.
3. A flat weekly rate is paid by ACC to AH&P through 'heat-with-rent' (this is currently set at £7.25 per week for 48 weeks of the year – giving an annual charge of £348). The flats' heat use is not individually metered. However, ACC commissioned a consultant to monitor the actual use of heat and to benchmark it against a comparable scheme where heat is individually metered to monitor if there is a significant difference.

By not having individual meters and by charging by 'heat-with-rent', the heating charge is VAT exempt which reduces the tenants' costs.

4. INEOS Chlor is one of the major chlor-alkali producers in Europe and is one of the largest electricity consumers in the UK. The company has a 38MW gas-fired CHP unit installed at their site and have plans to install a replacement CHP unit with a capacity of approximately 80MWe (electric) and 50MWth (thermal). The proposed scheme will produce electricity by burning waste derived fuel supplied by the Greater Manchester Waste Disposal Authority (WDA) and other WDAs in the North West of England. The Energy from Waste (EfW) CHP scheme could provide up to 20 per cent of the site's energy needs.
5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great

Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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