



Rachel Fletcher  
Director, Electricity Distribution  
Ofgem

23 June 2008

Dear Rachel,

**Electricity Distribution Price Control Review Initial Consultation Document -  
Comments from the Micropower Council**

Thank you for the opportunity to comment on the Electricity Distribution Price Control Review - Initial Consultation.

The Micropower Council wishes to comment on three issues that are important for the development of a healthy and robust microgeneration sector that is able to make a material contribution to Government's social, environmental, and energy policy goals.

**Facilitation of Microgeneration**

We welcome the significant increase in the emphasis given by Ofgem, under this price control, to promoting sustainable energy solutions. We believe that this should extend to all parts of the sustainable energy sector and that the DNO price control should recognise the importance of facilitating, to the greatest extent possible, new microgeneration connections.

**DNO losses incentive and microgeneration**

The Micropower Council considers that, under the current Price Control it is DNOs, rather than microgenerators, that benefit when microgeneration spills to the system.

The Micropower Council understands that, when microgeneration is not registered in the industry's settlement arrangements, any excess electricity delivered to the network (spill) will appear as a reduction in the calculated volume of distribution network losses under the DNO losses incentive<sup>1</sup>. DNOs can therefore earn £48/MWh, for each MWh of microgeneration spill, every year for a five year period. By contrast the microgenerator, or any supplier purchasing its export, receives no direct benefit (although all suppliers, whether or not they are contracted to buy the export, see some benefit through the operation of the GSP correction factor).

---

<sup>1</sup> We understand that allowance is made to remove the impact of output from larger generators but no adjustment is made for very small scale generators that spill.

It is difficult to estimate the likely size of the incentive payments DNOs will receive under the losses incentive as a result of microgeneration spill as there is little data on the number of microgenerators connected and spilling to the network, or the amount of spill.

However, assuming there are in the region of 5,000 electricity producing microgenerators, if we make the **conservative** assumption that some 90% are less than 30kW and unregistered<sup>2</sup> and the average spill volume is 1MWh per year<sup>3</sup> - this is equivalent to more than £1m over a 5 year period. However, this could rapidly become a multi million pound bonus when the industry starts to accelerate as micro-chp and other technologies expand to deliver a mass market capability.

This situation would eventually correct itself if the current incentive arrangements continue and the microgeneration is subsequently registered. However, if DNOs continue to earn such windfalls through no action or investment of their own it is essential that any commercial gains are returned to those that have delivered the benefits - microgenerators and/or the suppliers purchasing the output.

This issue also serves to highlight the importance of addressing the underlying problem - which is that it is simply not currently cost effective for suppliers to register microgeneration export within the industry's settlement arrangements.

#### **Network Impact of microgeneration and Cost Reflective DUoS charges**

The price control review should also recognise the network benefits that increased volumes of microgeneration can deliver through reducing power flows on the lower voltage network and thus reducing, or delaying, the need for network investment<sup>4</sup>.

This benefit should also be passed back to those that deliver it through cost reflective DUoS charges. However, being mindful of the complexity and confusion (and increase in transaction costs) that arises if this is taken to the extreme the Micropower Council considers it would be inappropriate for there to be multiple tariffs, within any particular DNO area, for broadly identical very small scale customers who install microgeneration technologies. We also consider that, to increase transparency and aid understanding, DNOs should use a common methodology when constructing DUoS tariffs.

Please contact me if you wish to discuss any of the issues raised in this response in more detail.

Yours sincerely

Jonah Anthony  
Policy Director, Micropower Council

---

<sup>2</sup> We know from Ofgem's own analysis that only 30 below 30kW generators have been registered.

<sup>3</sup> Given that some generators could be 30kW this is probably a very low estimate of the average spill.

<sup>4</sup> See SIAM study (System Integration of Additional Micro-generation) for further detail on the impact of microgeneration. Link: - <http://www.ensg.gov.uk/assets/siam.pdf>