

31 July 2001

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Dear Colleague,

EMBEDDED GENERATION

Following the press release issued jointly with the DTI, explaining how the recommendations of the Embedded Generation Working Group will be taken forward, we thought it would be helpful to write to you setting out the broad timetable we are planning for the next stage of our work.

Ofgem has set up an internal team to co-ordinate its work in considering the recommendations of the EGWG. This task will involve staff widely across Ofgem and will involve extensive consultation with DTI and with other interested parties. Our commitment to taking forward this work seriously was set out in our response to the EGWG's initial report, published on our website on 6 April.

The first of EGWG's two main recommendations was that Ofgem should review the structure of regulatory incentives on distribution network operators (DNOs) in the light of the new statutory duty on DNOs to facilitate competition. In response, and considering particularly the distribution price control and connection charges, we intend to identify:

- how the overall regulatory framework should operate with relation to electricity distribution, facilitating competition in generation and ensuring that there is no discrimination against embedded generation;
- the implications of growth of embedded generation, and of associated changes to the regulatory framework, for distribution company costs, charges and incentives;

- which changes to price control mechanisms it would be appropriate to defer until the next price control review, whether any might sensibly be implemented sooner, and what processes would be required to effect and manage those changes; and to suggest
- whether the possibility of domestic and other micro-scale generation raises any additional questions not properly addressed by the foregoing.

Ofgem's present intention is to issue a consultation paper on price control and connection charge issues in August 2001, requesting responses by the beginning of November. We aim to publish a decision document in late December, which would allow sufficient time for implementation of any changes from April 2002.

EGWG's other main recommendation was that a group should be established to co-ordinate and take forward the implementation of EGWG's recommendations for the longer term. DTI and Ofgem have announced that such a group will be established under their joint chairmanship. A separate announcement about the membership and terms of reference of this co-ordinating group will be made in due course.

The EGWG report contains a considerable number of secondary recommendations. Many of these are primarily for the electricity supply industry, but Ofgem will have significant involvement in those having a regulatory dimension. During the period July 2001 to January 2002 we shall participate in work on:

- consideration of changes that might usefully be made to Engineering Recommendation P.2/5;
- network design issues relevant to increased levels of embedded generation;
- information requirements of DNOs and potential embedded generators (concurrently with related work on Long Term Development Statements);
- understanding the concerns of existing embedded generators about possible changes to connection and distribution charging mechanisms; and
- considering the implications of domestic and micro-generation.

Many of these issues involve not only Ofgem but also a variety of other parties. Ofgem's role will be to contribute as effectively as possible to taking them forward, in co-ordination with those other parties and the new co-ordinating group.

Should you have any questions about Ofgem's work in the field of embedded generation, please contact me or Steve McBurney (020-7901-7371).

Yours sincerely,

Arthur Cooke
Embedded Generation Co-ordinator