



United Utilities PLC
Dawson House
Great Sankey
Warrington WA5 3LW

Telephone 01925 237000
www.unitedutilities.com

Arthur Cooke
Distributed Generation Coordinator
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Direct Line 01925 237096
mike.boxall@uuplc.co.uk

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Dear Arthur

DISTRIBUTED GENERATION – A REVIEW OF PROGRESS

Your report on progress on Distributed Generation published in January, invited comments although it was not a formal consultation paper. I have already provided a response to Callum McCarthy's open letter to Chief Executives and have used that opportunity to comment on many of the policy issues that Ofgem has raised.

I found your progress report a very helpful summary of activity within both the Ofgem and TSG work streams under the DGCG. However, there was a disappointing lack of information on the effects of the measures already undertaken. It is over two years since the EGWG reported, and work began to put its recommendations into effect.

It would have been very helpful if your paper had set out an assessment of progress towards the Government's targets for increased penetration of distributed generation, particularly renewables and CHP. The work programme recommended by EGWG was intended to support delivery of Government targets which could be measured in terms of MW of capacity connected or kWh of electricity delivered directly into distribution networks.

We can appreciate that progress towards the 2010 targets is likely to be most evident in the later years of the decade, but it would have been helpful to have had Ofgem's comments on progress to date, not only in terms of generation projects completed, but also for projects at earlier stages of development (such as planning consents achieved, connection offers accepted, etc).

Your report suggests that all is going well, and that TSG and Ofgem projects are generally on track. However, this is a narrow view of success since it fails to consider whether the measures taken or planned will achieved the wider environmental goals that lie behind the programme. I had expected that within your report there would be a section that stepped back

to view activity in the market. A recent survey for the Renewables Advisory Board indicated little confidence that the 2010 targets for renewables and CHP would be met.

Apart from anecdotal evidence of interest in renewable generation projects in parts of Scotland, there is little sign that new generating capacity will be installed at the rate necessary to achieve the Government's targets. If this is the case (and it should be possible to report on activity prior to construction, such as enquiries received by DNOs, planning applications, etc), your report could usefully explore the remaining impediments to development that will still challenge achievement of the targets, even if the current DGCG work programme is complete. We believe the DGCG should take a broader view of its role and draw attention to other areas or work that are needed.

Our response to the open letter sets out some ideas which we believe would help to resolve the uncertainties faced by DNOs and put in place both cost recovery and reward structures that should encourage a more proactive stance by distributors. We hope to be able to discuss these proposals with Ofgem in the near future, and it would be helpful to consider, at the same time, your thoughts on progress towards the Government's targets.

I hope you find these comments useful.

Yours sincerely



Mike Boxall
Head of Electricity Regulation