

Sir John Mogg KCMG
Chairman
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

8 October 2003

Dear Sir John,

BG MicroGen comments for the Ofgem three year strategy 2004-07

We welcome your consideration of the Authority's strategic choices for the coming years. The publication of a three year strategy is a very useful reference point for all parties in the gas and electricity sectors.

BG MicroGen is developing a micro Combined Heat & Power (Micro-CHP) unit, for pilot commercial launch in late 2003.

The MicroGen unit is a replacement for the wall-hung heating and hot water boilers installed in most of Briatin's houses.

The unit will offer consumers the opportunity to heat their homes and produce electricity very efficiently. MicroGen units will:

- allow consumers to save money on their fuel bills;
- help reduce greenhouse gas emissions;
- reduce losses on the electricity system;
- increase security of supply; and
- enhance competition.

The benefits of micro-generation are acknowledged throughout government and the industry, and are recognised explicitly in the Social and Environmental Guidance to the Authority.

The Authority has a key role in helping to realise these benefits. In particular, the regulation of electricity distribution companies, and the approach to gas and electricity supply licensing, are important areas for consideration in the strategy.

Electricity Distribution

Micro-CHP generators will tend to reduce losses on electricity distribution systems, and are likely to help reduce the increasing demands on the system at peak times. This helps to cut wasted energy, to increase security through diversity of supply, and potentially to delay costly network reinforcements.

It is important that distribution network companies have appropriate incentives to connect micro-generation, and to reward their benefits. **Current work by Ofgem on the distribution price control review, and the structure of electricity distribution charges, should recognise the benefits of micro-CHP and ensure that mechanisms exist to reward these benefits.**

Electricity and Gas Supply

Customers can make savings on their gas and electricity bills if they replace their existing low-efficiency boilers with a MicroGen unit. However, customers are often unable or unwilling to finance the up-front cost of energy saving equipment, despite the ongoing energy savings, which deliver lower lifetime costs.

An Energy Services Company (ESCO) could offer customers an integrated offering of equipment supply and energy delivery. ESCOs have been successful in the industrial and commercial supply sector, but have been unable to offer similar benefits for customers in the domestic markets. **A review of existing supply licence conditions, and their application, would help to ensure that suppliers are able to make ESCO offerings that provide long-term value to domestic customers.**

Distributed Generation Coordinating Group

This group (and its sub-groups) has a vital role in removing barriers to the expansion of distributed generation. We, and the other parties involved, take the work of this group very seriously, and we have made substantial commitments to help deliver its aims.

We recognise and appreciate Ofgem's commitment, enthusiasm and support in this work, and look forward to it continuing in the future.

Please contact me if you would like to discuss these comments in more detail.

We look forward to publication of the strategy.

Yours sincerely

Graham Roberts
Regulation Manager – MicroGen