

**Microgen Energy Ltd**

100 Thames Valley Park Drive, Reading RG6 1PT, UK  
T +44 (0)118 935 3222  
F +44 (0)118 929 2057  
www.microgen.com



Chris Chapman  
Head of Planning  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

*RESPONSE BY EMAIL ONLY*

4 February 2004

Dear Chris,

**Microgen comments on the Ofgem draft three year strategy 2004-07**

We welcome the consultation on Ofgem's three year strategy. The strategy will provide an important reference point for all parties in the gas and electricity sectors.

Microgen Energy Limited (Microgen) is developing a micro Combined Heat & Power (micro-CHP) unit. Microgen is part of BG Group.

The Microgen unit is a replacement for the wall-hung heating and hot water boilers installed in most of Britain'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 (which include, but are not limited to micro-CHP) are acknowledged throughout government and the industry, and are recognised explicitly in the Social and Environmental Guidance to the Authority.

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

Our specific comments are given below, referenced to the appropriate themes identified in the draft strategy document.

## Theme 2 – Creating and sustaining competition

The installation of micro-generation will help customers (typically domestic customers) save money on their electricity bills, by reducing their demand from the network. Micro-generators will also export small amounts of power. In order to ensure that customers are appropriately rewarded, the strategy should include a review of how licence requirements may apply to export metering, and contracts for export.

## Theme 3 – Regulating network monopolies

Paragraphs 3.6 and 3.10 focus on how increasing distributed generation will drive the need for network reinforcement. However, a sub-set of this new generation, i.e. micro-generation, is likely to be able to be connected at no cost to the network, and could reduce the need for costly network reinforcement.

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-generation and ensure that mechanisms exist to reward these benefits.

## Theme 4 – Helping protect security of Britain’s energy supplies

It is important to recognise that increased security need not always mean more network reinforcement. Because micro-generation effectively reduces demand on the networks, it makes a contribution to security of supply, as do other energy-efficiency improvements.

## Theme 6 – Helping protect the environment; and Theme 7 – Helping tackle fuel poverty

Ofgem’s Environmental Action Plan, and the energy efficiency initiatives that stem from it, are important in helping customers save money and contribute to lower greenhouse gas emissions. Micro-generation has a valuable contribution to make in this area.

We support the statement in paragraph 6.11, to assess how customers can be rewarded for helping reduce electricity consumption on the system at peak times.

Finally, we would like to acknowledge Ofgem’s commitment and support in the work of the Distributed Generation Coordinating Group and its sub-groups. We look forward to this continuing in the forthcoming strategy period.

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

We look forward to the publication of the strategy.

Yours sincerely

***G Roberts***

Graham Roberts  
Regulation Manager – MicroGen

**Microgen Energy Ltd**  
Registered in England No. 04442132  
Registered office:  
100 Thames Valley Park Drive, Reading RG6 1PT

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