Greenpeace Submission
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Proposed DNO Charging Methodology Statements

1. As an initial important point, we would like Ofgem to take care to ensure, at a minimum, that future consultations include a glossary of abbreviations and definitions of terms. We consider the viability of embedded generation at the community and household level as critical for the purposes of meeting the government's emissions reduction targets and this is an area of growing interest for Greenpeace. This highly technical consultation needs to take better care to address itself to stakeholders, other than those with a direct financial stake in the industry. Note Greenpeace's earlier request in our submission to Ofgem's Corporate Strategy Review that better care is taken to engage a diversity of stakeholders to whom these issues are highly relevant but technically prohibitive.

2. The overarching observation we make, having considered the proposals, is with regard to the exclusive focus by DNOs on the levying of charges on generators. Greenpeace has seen several calculations, by; the World Alliance for Decentralised Energy[1], the Tyndall Centre[2], the International Energy Authority[3] and most recently by Mott McDonald[4] all supporting the conclusion that embedded generation offers overall cost benefits which should be pursued for the wider benefit of energy consumers. We find the case for a more decentralised approach to energy infrastructure development compelling on grounds of cost, system security, resource efficiency and emission reductions. We therefore find it unacceptable that no reference has been made by *any* DNO to rewarding the cost benefits that can accrue to their businesses as a result of facilitating embedded generation on their networks and deferring more expensive higher voltage reinforcement costs. Our conclusion is that the DNOs proposals do not embody the principle of cost reflectivity. We are reminded of their monopoly position. From an environmental perspective, given the emission savings that can accrue from embedded generation, we find these asymmetric pricing proposals particularly unacceptable. In addition to its duty to protect the economic interests of consumers we would draw Ofgem's attention to its statutory duty to contribute to sustainable development for the benefit of consumers set out in the recent Energy Act 2004 (s. 83).

3. We do note the DNOs who have proposed no use of system charges for embedded generators. This is more acceptable, however, all DNOs should incorporate a mechanism to reflect cost benefits back to embedded generators.

4. It is unclear to us why the DNOs proposing GDUoS charges show such wide variance in their pricing proposals. No satisfactory explanation is given. (We accept some variance may be inevitable given geographic factors). The extent of the variance again suggest to us that pricing proposals are not underpinned by robust cost-reflective analysis. Similarly we have seen no suggestion that incentive and pass-through component of GSUoS will terminate once the costs of connection assets have been recovered. This should of course be the case. If it is not, then in some instances embedded generators may well face higher lifecycle costs under the shallowish charging than under the deep charging regime.

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[1] See WADE's economic model at www.localpower.org
[2] Microgrids: Distributed On-Site Generation, Abu-Sharkh, Li, Markvart, Ross, Wilson, Yao, Steemers, Koehler and Arnold, Tyndall Centre, 12/08/04
[3] World Energy Outlook, 2002, International Energy Agency
[4] System Integration of Additional Micro-Generation, Mott MacDonald, 2004

5. Regarding charges for EHV connections, we note that some of the DNOs wish to reserve the right to enter into private bilateral negotiations with parties wishing to connect to the EHV network. This implies that there is no regulation of prices under such agreements. Because the agreements are proposed to be commercial-in-confidence, cost comparisons between these connections and connections at lower voltages cannot be made. This lack of transparency is uncompetitive; it might for example result in published connection charges being raised to allow cross-subsidy from the lower voltage connections to large volume EHV connections. This would inhibit the development of markets for lower voltage connections.

6. We object in principle to the capacity aspect of GDUoS being based by some DNOs on installed capacity. All definitions of capacity should be based on export capacity.

7. As a general point, embedded generation capacity in the UK is low – 6.5% of total capacity[5] – the great majority of which is in the industrial sector. Within that, the take up of microgeneration in UK households is immeasurably small – for example, while there have been a few hundred pilot installations, there is still no commercial market in micro-CHP provision for households in the UK[6]. On the face of it, we fail to understand the apparently great interest of DNOs in the consultation. Greenpeace would prefer to see Ofgem delay the introduction of a pricing methodology for embedded generators until these technologies can establish a significant foothold. Market research carried out by the Society of British Gas Industries in 2003 concludes that even under the most optimistic scenario, microgenerators are unlikely to exceed a penetration level of 8% of households by 2010. Given their environmental and economic advantages in terms of carbon/higher voltage reinforcement offsets we see an economic and political case for proactive policy measures – for example a feed-in tariff - to expedite the take up of these valuable technologies.

8. Regarding institutional structure for retail of distributed generation/micro-CHP. The proposals concentrate entirely on the connection charges to be levied by DNOs on generators wishing to connect into the grid. Although the document is not explicit, there is an obvious underlying assumption that a generator will have to obtain a connection licence to satisfy the DNO. This ignores the fundamental characteristic of decentralised generation including micro-CHP. These technologies are intended to be installed as a consumer good in a retail market. It is not feasible for every micropower operator to go through the type of licensing procedure that is now required of generators. If micropower is to be adopted on a large scale, it must be treated as a consumer good. This means that it should be sold and maintained in the same way as other household energy services. The proposals make no mention of the role of retail companies in the provision of electricity with regards to decentralised generation. In particular, it must be possible for a consumer to buy a micropower system and have a contract for power generation in the same way as is currently in operation for sales of power from power retail companies to consumers. There must be a simple standard contract for the consumer, covering all aspects of both electricity supply to the household customer as well as the generation by the household of electricity for supply to the LVN or DNO. The current proposals make no mention of these issues at all. In this context, a further absence is the lack of consideration of metering issues, which of course might be necessary for establishing a basis for such a consumers buy/sell agreement.

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[5] World Survey of Decentralised Energy 2004, WADE www.localpower.org
[6] MicroCHP – Coming to a Home Near You?, Prospectus, Platts Research and Consulting, 2003