



Your Ref: 123/05

Our Ref: SI/NS/Microgen

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**Date:** 15 July 2005

Dear Arthur

**The regulatory implications of domestic-scale microgeneration**

CE Electric UK Funding Company (CE) is the UK parent company of Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution plc (YEDL). This letter and attachment represents the response of CE, NEDL and YEDL to Ofgem's consultation on the regulatory implications of domestic-scale microgeneration.

The attached response is structured in two parts, the first of which deals with Ofgem's DNO-specific questions; the second covers some of the more wide-ranging issues relevant to the broader industry debate on domestic-scale microgeneration.

I hope that you find this contribution helpful. If you would like to discuss any part of it, then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Joe Hart", written over a horizontal line.

Joe Hart  
Network Sales Manager  
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## **Detailed comments on Ofgem's April 2005 consultation on the regulatory implications of domestic-scale microgeneration**

### **1 Timetable**

The timescales outlined by Ofgem (a consultation during the summer of 2005, with a decisions document in December 2005) appear to be realistic. We agree with the view expressed in the consultation document that, for the foreseeable future, penetration of microgeneration will be on a relatively small scale.

However, it is important that the industry is best placed to respond to the challenges presented by the uptake of these developing technologies. We are supportive of the initiative that Ofgem are taking to develop the appropriate regulatory mechanisms to control and regulate the provision and use of microgeneration technology in the domestic market. This is particularly significant given that these technologies are beginning to become available and connected to the distribution network.

### **2 DNO-specific issues**

The following questions were specifically asked of DNOs' within the consultation document:-

- Ofgem would be interested to know whether current practice of DNOs is to create an export MPAN on receipt of notification of commissioning of a microgenerator (in accordance with the ESQC Regulations 2002), or when a licensed supplier seeks to register as responsible for exports from the premises under the BSC in the MPAS. (8.8);
- Ofgem would welcome views as to whether there should be a new licence obligation on DNOs to notify owners or occupiers of premises of any export MPAN created in respect of those premises. Should this be further extended to notification to the registered supplier (in case the absence of a reverse stop may mean that the meter is no longer 'appropriate')? (8.10); and
- It would be helpful to receive views from DNOs as to the extent to which they would be able, both administratively and legally, to advise the registered supplier of the commissioning of microgeneration in any premises. (10.23).

The answers to these specific questions follow in the next sections.

#### **2.1 Creation of export MPANs**

At present, there is no recorded domestic-scale microgeneration in the NEDL or YEDL distribution services areas, so there is no experience to draw upon with respect to this issue.

However, we believe there would be greater accountability if the export MPAN were created upon the supplier seeking to register the export energy.

We feel that this would be the simplest method from a user's point of view, therefore leading to a greater likelihood of it occurring. This is particularly relevant when one considers the potential that a user does not know the identity of their DNO – an issue likely to become more prevalent as embedded distribution network operators expand their market share. Under this scenario the user would enter into dialogue with the supplier and the appropriate details should be readily available to enable accurate creation of the MPAN.

If the MPAN were created upon receipt of commissioning information, it could conceivably be the case that the registration would remain incomplete for some time, until the DNO was able to identify the supplier. This would have the potential to undermine the integrity of settlements data and increase reported distribution losses.

## **2.2 Appropriateness of a licence modification for DNOs to notify users of export MPANs**

To introduce additional licence obligations would be inconsistent with Ofgem's intention to address microgeneration issues without extending the scope of regulation or materially increasing the regulatory burden on supply or distribution licensees. We do not, therefore, support a licence modification as we believe this is contrary to Ofgem's stated desire to remove itself from regulation.

Furthermore, when consideration is being given to whether licence modifications are appropriate, the control that any licensee can exert on the implementation of that licence condition should be carefully considered.

If the DNO has the information contained within its MPAS then clearly there is not a significant issue with providing the information and it could easily carry out the requirement of any licence obligation. Difficulties arise, however, when it is considered that the DNOs are entirely reliant on third parties providing information to them that would enable them to execute their obligation. Given this it is clearly unacceptable to place an absolute responsibility on DNOs to notify users of a registered export MPAN.

Were the licence obligation to be framed such that it was a responsibility for a DNO to use reasonable endeavours to provide this information then this would be compatible with the reliance on third parties – however, it would realistically mean the distributors would only provide what information they had been told about anyway. Therefore, there seems little benefit to pursuing a licence modification.

## **2.3 Information transfer to facilitate notification of commissioning of microgeneration**

There are data protection concerns surrounding the disclosure of end user information by DNOs to any other party. One potential solution to this quandary could be the inclusion of some form of disclosure consent agreement, through which the microgeneration user authorises the DNO to share relevant information with suppliers. This information-sharing process between DNOs and suppliers could prove to be burdensome with increased uptake of microgeneration, and alternative methods of information gathering would be preferred.

Furthermore, the notification of microgeneration installations need not necessarily come from DNOs. One solution could be the imposition of a statutory obligation on microgeneration users to inform their supplier directly at the time of installation, so that the supplier may arrange for appropriate metering to be installed. It may be that the BSC could be amended to tighten the responsibilities surrounding the installation of microgeneration equipment. Microgeneration equipment could be issued with relevant instructions to users.

Should a customer fail to agree to the installation of appropriate metering for his premises, a supplier may discontinue the supply. It may be that this measure could be used in order to incentivise users of microgeneration to communicate their installation accurately to all relevant parties. However, given that some customers could install their own microgeneration equipment (it need not necessarily be installed by a supplier-related party), it could be the case that the host DNO would remain unaware that the customer even had microgeneration equipment on his premises. These issues highlight the need for tight controls to be placed on the provision of guidance information associated with the sale of DIY microgeneration equipment.

## **3 Non-DNO specific issues**

### **3.1 Spilled units and the relationship between suppliers, customers and DNOs**

Ofgem have stated that, in the case of spilled units, a use of system agreement would be in place between the DNO and the microgenerator. This is not a desirable position for CE as we believe that for DNOs to have such relationships with end users undermines the operation of the supplier hub marketplace. We therefore believe that the DNO's relationship ought to be with the supplier.

It should also be noted that, as suggested in the consultation, the incentive on users who install a microgeneration unit purely for energy efficiency reasons to change their metering are very low. This lack of incentive means that these users may compromise the integrity of settlements data, particularly once there are significant levels of microgeneration energy being generated.

Unrecorded spill units could serve to improve losses performance cosmetically in the short term. However, as the uptake of microgeneration technology increases and the awareness of the requirement for appropriate metering increases, this cosmetic improvement would be reversed. Such a situation could cause difficulties with the distribution losses incentive mechanism.

Perhaps the simplest mechanism of avoiding this issue is to ensure that users are sufficiently well paid for their exported units that they are motivated to co-operate with the registration process.

### **3.2 Competitive supply market**

The consultation document appears to assume that a customer purchasing a microgeneration unit from a supplier would automatically buy their energy from that supplier. In a mature, competitive energy market, customers will expect to be able to choose their supplier, rather than have one foisted upon them. An appropriate regulatory framework should be established that ensures that customers with microgeneration have the same access to the competitive supply market as all other customers.

The consultation assumes that microgenerators will have contracts with (licensed) suppliers. An issue not considered is that it is possible for microgenerators to contract with exempt suppliers. In turn, those exempt suppliers would have agreements with licensed suppliers to provide services including 'piggy back' use of system and registration rights, adding further complication to the process of the issue and receipt of accurate information relating to installation. Again, consideration needs to be given, in establishing the regulatory framework, as to how this form of relationship would be facilitated.

### **3.3 Metering issues**

Rightly, Ofgem has expressed the view that a meter is not appropriate if it will run in reverse as a result of the installation and operation of microgeneration equipment. As reverse-running import metering would breach Schedule 7 of the Electricity Act, it is necessary to supplement the statutory notification of microgeneration installation to the DNO with a notice to the supplier informing them of the connection of the installation and the subsequent requirement to change metering system.

Ofgem's current view for all distributed generation, including microgeneration, is that separate import and export metering is the best way forward. This is a view that CE supports as we believe appropriate measures must be implemented to preserve the integrity of settlements data in light of the advent of these new technologies.

### **3.4 Safety**

The consultation addresses the very important issue of safety, and refers to the potential for DIY installation. Generation is a very different proposition from normal load and is therefore notifiable under Part P of the Building Regulations, and ER G83 also requires installation by a competent person. Correct installation and notification of microgeneration are essential to ensuring that safety standards are maintained. An installation in breach of ER G83 clearly places staff (e.g. meter operators and distribution staff) working at the meter position in danger due to the lack of awareness of the presence of generation. We do not feel, therefore, that microgeneration equipment would be suitable for DIY installation.

It is our firm view that microgeneration equipment should be sold with sufficient instructions for use, with full reference to ER G83 and other relevant information. Ideally microgeneration equipment would be issued with relevant pages from ER G83 regarding connection information, the Type Test sheet and instructions for communicating commissioning information to suppliers and / or DNOs.

ER G83 already envisages the situation where a party inspecting a meter would not meet the consumer, or perhaps would not have any indication of the presence of microgeneration. We believe that the ER G83 requirement for the fitting of warning notices to be installed at the cut-out, meter and consumer unit positions should be included with microgeneration kits to increase the probability of their being fitted.