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Dear Mr Cooke

Thank you for the opportunity to comment on Ofgem's consultation on the regulatory implications of microgeneration. Our apologies for the late response.

General comments:

We welcome Ofgem's recognition that increased deployment of microgeneration technologies will require new approaches to regulation, and its decision to begin to develop such a framework in an open and transparent manner. Microgeneration technologies can play a significant role in reducing the UK's carbon dioxide emissions by providing low or zero carbon emissions generation. This can contribute to the Government's environmental targets both directly, and indirectly through engaging individual consumers in implementing solutions to climate change.

It is therefore disappointing that the consultation document gives so little emphasis to the environmental benefits of increased deployment of microgeneration technologies, despite Ofgem's new duty under the 2004 Energy Act to contribute to the achievement of sustainable development. Instead, the document frames the issue of regulating microgeneration overwhelmingly in terms of the possible complexities it will cause supply and distribution companies. The emphasis is on short term costs to supply and distribution companies, rather than the benefits that widespread deployment of microgeneration could bring to the electricity system in the longer term. A longer term approach to designing regulation will be necessary in order to contribute to the sustainable development of the electricity system.

In addition, it would have been helpful to provide some balance to the discussion of the potential costs to companies by comparing them with the possible savings in carbon dioxide emissions. In its Corporate Strategy and Plan, Ofgem committed to incorporating the social costs of carbon as a factor in its decision making and it would

have been informative if some indication of the balance of costs under various scenarios were provided in the consultation document.

Essentially, the consultation document appears to aim to preserve the status quo, rather than enabling the realisation of the Government's policy aim of a shift to a low carbon system. This approach is particularly problematic because, as the consultation document rightly recognises, 'the existing licensing framework was not ... created with domestic-scale microgeneration in mind.' (para 1.2) This statement, however, appears to be contradicted by the position put forward at the beginning of the document that Ofgem intends 'to address microgeneration issues without extending the scope of regulation or materially increasing the regulatory burden on supply or distribution licensees.'

Rather than viewing microgeneration solely as a burden for energy companies, Ofgem should treat the possible increase in use of the technologies as an opportunity to innovate. This could take the form of technological innovation, or innovation in business practice through the development of energy services.

The Energy White Paper clearly envisages widespread implementation of microgeneration. However, to take place it will need a sympathetic regulatory regime to ensure that microgeneration is treated on a level playing field with conventional, centralised generation. This will require the removal of barriers to new technologies, which may in turn require a shift in regulatory burdens and practices. So, for example, focusing solely on the transaction costs to suppliers of accommodating microgeneration appears to be favouring suppliers over owners of microgenerating plants. This is not even handed. While we understand Ofgem's general reluctance to increase any regulatory burden on incumbent actors in the electricity system, this position should not become an article of faith in specific circumstances where a change in regulation can contribute to the development of a more sustainable electricity system.

Exports and spillage:

The consultation document does not propose to make it a requirement for suppliers to purchase exports from microgeneration sites. This position fails to recognise the additional value of microgeneration to suppliers because of the avoided use of transmission and a portion of distribution charges that it entails¹. It also fails to recognise that the exports have a value in themselves - which at present cannot be passed to consumers accurately due to limitations in the balancing and settlement system. Again, this suggestion appears to be at odds with the intentions of the Energy White Paper, which clearly envisages that excess power from microgeneration will be sold into the distribution networks².

It also risks creating catch 22 situation where suppliers claim that it is uneconomic to buy exports because of the low level of penetration, and low penetration persists

¹ The assessment of the value of microgeneration on the network should reflect current wholesale prices, the avoided transmission use of system charges, a portion of distribution use of system charges to reflect their partial avoidance, and, if appropriate, the value of the ROCs for both exports and generated units.

² Our Energy Future – Creating a Low Carbon Economy, page 18

because of a failure to recognise the benefits of the exports, so making microgeneration less attractive to potential owners.

Meters:

The document proposes that meters should be retained, or replaced with the cheapest available alternative meter which does not run in reverse. This clearly demonstrates the short term approach adopted in the consultation, as, if the Energy White Paper aims are to be achieved, it will merely defer the costs of upgrading meters on to future consumers or suppliers.

There is no discussion of the option of installing generating meters to allow the measurement of the entire output from a microgenerating plant. However, the most sensible option to encourage increased deployment of microgeneration would be to require both an import/export meter to reflect the different values of imported and exported power, and a generating meter to record total generation and allow access to any applicable ROCs and LECs.

ROCs

At the moment it is not worth the while of individual domestic consumers to claim any applicable ROCs for their output because of the transaction costs involved. One possible way through this is to allow suppliers access to any ROCs or LECs from microgeneration if they pay for power exported on to the network. In addition to reflecting the value of microgeneration, it would also encourage suppliers value microgeneration more highly and perhaps encourage them to act as consolidators of output to realise economies of scale.

28 Day Rule:

Finally, the consultation does not address the issue of the 28 day rule, which has in the past been identified as a barrier to the development of energy services. The impact of the current trial relaxation of the 28 day rule has yet to be assessed, both in terms of any increase in the provision of energy services or any abuse by suppliers.

However, it could be argued that the uncertainty about the future status of the 28 day rule is acting as a barrier to companies wishing to promote the use of microgeneration given that they risk capital outlays without any guarantee of being able to retain customers should the 28 day rule be reinstated.

We hope these comments are useful. If you need more information, please let us know.

Yours sincerely

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