The Renewable Power Association

Submission to the Ofgem consultation on "The regulatory implications of domestic-scale microgeneration."

1/ Introduction

The RPA welcomes this consultation in the context of the 2003 Energy White Paper's vision of "much more micro-generation" by 2020, and the positive steps that are being taken across Government to promote the broadest range of micro-renewable technologies.

As a basic principle, Ofgem should be working towards a more user-friendly regulatory regime for micro-generators to reflect the realities of this growing non-specialist energy market, and specifically the very significant market growth predicted towards the end of this decade and beyond. At the individual domestic customer level, current regulatory barriers risk undermining progress towards delivering the Government's "headline policy" commitments, not least by making the process of installing a micro-renewable energy system unnecessarily complex. While the process for signing up to eg the wind and PV output tariffs offered by supply companies such as Good Energy and Npower/Juice is straightforward, for all but the most committed of customers, many aspects of the regulatory requirements for micro-generators including ROC accreditation remain a largely bewildering exercise.

2/ Obligation to purchase export from micro-generation

13.4 Terms for supply of electricity

Condition 41 of the supply license should be amended. We believe that as a minimum, the time is now right for Ofgem to require suppliers to purchase spill units, but that beyond that minimum requirement, market flexibility in terms of developing appropriate export or output tariffs is an important principle that needs to be maintained. For this reason, we believe that the specific tariff level needs to be set by individual suppliers and should not be a regulatory issue.

The RPA believes that it would be appropriate for Ofgem to place an obligation on suppliers to purchase export from micro-generation. Supply companies are the only entities able to trade this power and currently they benefit collectively from spilled units. It is logical and appropriate that as a minimum they should be obliged to publish tariffs and purchase spilled units at the prices they specify. Ofgem's primary duty is to protect electricity consumers, and promote competition, turning to regulation as a last resort. In our view, the time is now right for Ofgem to use regulation to ensure that

domestic electricity consumers who are also micro-generators are rewarded for the units they export and are able to choose a supplier based on both the sales and purchase tariff offered.

The reality is that many suppliers are now offering a patchwork of different tariffs and payments for domestic micro-generated "exported" electricity but the market lacks a current minimum regulatory standard or requirement. Subsequently the micro-generation market is currently being built on anything but a level playing field guaranteeing minimum standards, and in which customers can make informed choices on the most appropriate tariff for their individual circumstances.

Market flexibility in developing new tariffs for micro-generated power is something that both the Government and Ofgem should be mindful to promote. In the current liberalised market, at least two suppliers are paying domestic micro-generation customers for their total output of electricity without the need for additional export or smart metering, and in many cases these output tariffs are rewarding domestic micro-generators at levels above those that might be expected from any payment from an export only regime.

But these "output" tariffs are most appropriate for technologies such as small domestic solar PV systems where the exported electricity is likely to be at a very low level, and are under constant review by the suppliers concerned.

Other suppliers are offering "export" tariffs on the basis of the supplier's own estimate of exported electricity rather than metered export. Often, these estimated export tariffs are based on crude formulae which tend to offer payments on the basis of the lowest common denominator and assumptions about a household's behaviour which may be wholly inappropriate in individual cases. They are for example totally inappropriate for larger very energy efficient households with large micro-renewable systems exporting significant amounts of electricity.

3/ Metering

13.2 reverse-running meters

Ofgem considers these are not appropriate for use in the case of micro-generation. The RPA believes that with current levels of micro-generation the backwards running meter issue is de-minimis, that a minimum requirement for newly installed meters should be that they are both import and export, and that an appropriate transition period be allowed within which existing meters without back stops are replaced.

4/ Informing Suppliers of Micro-generation

13.5 - 13.7 Notifications between DNOs and suppliers

Ofgem is right to draw attention to the current lack of any obligation to inform a supplier of micro-generation installation. In practice, it is in most customers own interest to inform their supplier directly not least to ensure

Direct Debit payments are amended appropriately for example or to sign up to an appropriate output tariff described above, but as the market for these technologies becomes more mainstream, this is a not an assumption any regulator protecting customer interests can continue to make with absolute confidence. The RPA believes that DNOs should be obliged to inform the registered supplier when micro-generation is installed, that this should not be administratively burdensome, and that DNOs should provide the MPAN numbers and should use a specific identifier on the MPAN number to denote micro-generation.

5/ Making the RO more user-friendly to micro-generators

In our view, the single most important change required to make the current domestic micro-generation regulatory regime more user-friendly lies outside the immediate scope of this consultation. It would be a move to allow suppliers to bulk-process ROC applications and claims.

The current procedure for applying to join the ROC register and then claim ROCs can be bewildering to the growing numbers of domestic micro-generators. For the most part these are householders who are either attempting to join the ROC register individually, or are else dissuaded to do so by the onerous and time consuming process this involves.

In the current regulatory environment, too many of the administrative costs involved are per generator or per application. While this model makes eminently good sense for large-scale renewable energy plants, it is entirely inappropriate for the smallest micro-generators at household level. Under the current regime there is no economic incentive at all for major suppliers or other agents to work with customers to submit individual ROC applications and to manage the annual process of ROC claims on their behalf if that is what the individual generator chooses to do.

Under a bulk-processing regime, the requirement to submit a single accreditation application for each station should be lifted to allow bulk processing of accreditation applications.

We would also recommend strongly that further consideration be given to allowing the output from multiple micro-generators to be amalgamated for the purposes of ROC entitlement. Similarly we believe it is both administratively possible and certainly desirable to allow groups of micro-generating stations (e.g. those in a specific geographical region) to be capable of being amalgamated and treated as a single generating station for ROC purposes.

As a general principle, a “user friendly” domestic scale ROC regime for example is still needed as part of a broader “one stop approach” for micro-generators, not least to allow aggregation of ROC applications and to simplify the process of applying for and claiming ROCs.

6/ Annual averages, Type Approval and ROCs

Some of the current debate over the need for possible further technical changes to the RO could be addressed by moving to a system of ROC allocations based on annual averaging or type certification. This is particularly relevant to solar PV (but also other technologies) where the experience of the Australian RECs system provides a practical demonstration of what is possible.

Linking ROC allocations specifically to pre-determined annual averages for different micro-renewable technologies, would have a number of benefits including reducing the administrative burden on micro generators/suppliers by removing the requirement to collect meter data within a very narrow time and submit it to Ofgem and/or applying to use an estimate within the short and already busy time window at the end of the obligation period. It would also reduce transaction costs for generators, as well as reducing the administrative burdens for both the RO administrator and Ofgem. The need for such a scheme to be based on clear and transparent product and installation standards would also tie the ROC regime more directly into important developments in industry standards through the new product certification and accreditation arrangements to be put in place for the forthcoming DTI Low Carbon Buildings Programme.

Given the enormous range in qualifying output for one annual ROC i.e. >500 kWh - <1500 kWh, a move to type certification for those technologies where predictions of future average output from installed systems are straightforward, would provide an administratively simple and customer/user friendly step forward. Data from both the DTI and npower for example shows that the average output per kWp for a domestic solar PV customer is about 820 kWh per annum. So for a typical domestic PV system of 2.5 kWp generating on average 2050 kWh per annum, it ought to be possible to issue 2 ROCs per annum in complete confidence subject to the safeguards implied by industry wide accreditation standards and codes of conduct.

7/ Incentivising renewable micro-generation.

In theory, even the smallest micro-generator e.g. a 1kWp solar PV householder can now claim one annual ROC for the 820 kWh generated on average annually by this size of system. The reality as one supplier points out in their advice to solar PV customers is that “current processes and procedures associated with obtaining ROCs are time consuming and not currently cost-effective for micro generators and suppliers.” While this situation remains there is little incentive for the supply companies to invest the time and resource required to develop more generous solar, wind and other micro-renewable tariffs incorporating ROC value.

But this is rather different to the argument that regulatory barriers are in some way acting as a disincentive to the micro-renewables market place. The reality for domestic scale micro-generation is that while RO regulatory challenges remain, it is an exaggeration to assert that for example the difficulties associated with claiming ROCs are in some way undermining the

current market for these technologies. Nor are they likely to. Certainly in the short-term to 2010, capital investments typically of £3,000 plus are not in our judgment likely to be determined by the relative ease with which a customer or their agent may be able to then claim annual ROCs worth in most cases no more than £47-£94 per annum at current ROC auction prices before administrative and other charges are taken into account.

Nevertheless, the main structural challenge remains how to mould a mechanism intended for large-scale industrial renewable electricity generation into one that is appropriate and user-friendly to the smallest domestic customer. In our view, while simplification is required urgently, there are other policy mechanisms which in the medium term also fit logically for household-scale micro-generation.

For most householders investing in these technologies there is a clear link between the renewable energy system and stimulated energy efficiency savings, and many see their investment as above all an energy efficiency measure. Micro-renewable technologies have a major role to play in delivering the Government's 2010-2020 domestic energy efficiency targets. The RPA favours extending the Energy Efficiency Commitment later this decade to include all micro-renewable technologies. This could support the further development of the micro-renewables market by allowing suppliers to include the provision of these technologies as part of energy service contracts. Micro-renewable technologies can make very significant contributions to the Government's 2020 domestic energy efficiency targets and the EEC mechanism could provide an effective means of support to the market in the medium term.