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Dear Arthur

Regulatory Implications of Domestic-Scale Microgeneration

I write with SSE's response to the recent consultation on the above topic. Our responses to the individual questions and recommendations in the document are attached, with the main themes of our response set out below.

Main Themes

- We welcome the development of the framework for domestic-scale microgeneration and believe there is a developing interest amongst customers in investing in such equipment. We believe the developing market will be encouraged by the general separation of microgeneration export considerations from those of licensed supply. For example, the possibility of longer contracts between the householder and purchaser of MG export than the "28 day rule" for domestic supply contracts will allow for a greater investment by potential purchasers of the export electricity in the customer relationship.

- We believe there is a need, due primarily to safety considerations, for installers of microgeneration equipment to be approved along the lines of the mechanism set out in the Building Regulations for electrical installation work. If this mechanism were put in place, there would be additional benefits in the form of greater control over information flows from the electricity industry to the approved installer network and from the installers to their customers.

- Ofgem is currently reviewing the supply licence with a view to reducing the burden of regulation in this competitive market. It is therefore counter to the principles of the review to consider additional obligations on suppliers with respect to microgeneration

and in our view, such obligations are not necessary. We do feel it is desirable for the supplier of premises where microgeneration is installed to be informed as soon as practicable that this has occurred so that they can evaluate their own metering arrangements.

- Similarly, we do not believe there is a case for a significantly greater role for DNOs in the microgeneration framework at this stage in its development. It may be possible for DNOs, in the medium term, to provide an indication via settlement flows that microgeneration has been installed at a premises. However, data protection and systems issues will need to be considered in developing this approach.

- We note a number of references in the document to the use of microgeneration as an energy efficiency measure. We agree with these comments and are strongly of the view that such installations should be allowed in the Energy Efficiency Commitment. In our view, such a move would further stimulate the market for microgeneration by allowing some targeted support for such installations.

I hope these comments are helpful. Given our particular comments on the desirability of an approved installer network, I am copying this response to Rachel Crisp at the DTI, as she is coordinating responses to the recently issued DTI consultation on microgeneration issues.

Yours sincerely

Rob McDonald
Director of Regulation

Scottish and Southern Energy plc

The Regulatory Implications of Domestic-Scale Microgeneration
Response to Consultation Questions and Recommendations

Chapter 2 – Rationale

Our main comment in this section is in relation to the health and safety issue that Ofgem recognises in paragraph 2.8. In our view, all microgeneration (MG) installations feature significant electrical safety considerations. Most, if not all, current MG technologies also entail some additional safety concern relating to their location (roofs), their fuel supply (gas) and/or the mechanical forces generated with consequent fixing requirements (wind generators). The dangers to householders and members of the public from faulty installation of MG equipment are real and significant.

We therefore believe that there needs to be a system of "approved installers" for any MG equipment, primarily for health and safety reasons. This could build on the recent change to the Building Regulations, which requires (via a new "Part P" of Schedule 1 to the Building Regulations) anything but minor electrical works to be undertaken by competent firms, or else to be inspected by a building inspector thereafter at the householder's cost. In each case, it would be anticipated that a duly signed certificate of competent installation would form part of the householder's property "deeds". We note that the Government has been able to define "competent firms" for the purposes of Part P as those registered under various approved contractor schemes. In our view, Government could similarly designate an approved contractor scheme for MG installations as part of a further development to the Building Regulations and/or consider a formal registration scheme for properties whose residents purchase any existing or potential "plug in" technologies that do not require significant installation work. While such a development would be primarily for Government to consider, Ofgem could help to publicise the existing requirements relating to electrical installation work.

Although the prime driver for a system of approved contractors is consideration of health and safety issues, we believe that such a system would have other advantages. This body of approved contractors would provide a base of individuals who could be trained and updated as necessary when electricity industry processes develop to accommodate MG. Codes of practice on relevant, practical features of MG installation could be developed in conjunction with the electricity industry. An approved contractor could also be the route by which standardised, relevant information could be provided to householders on the implications of having MG on their premises. We make reference to these advantages in a number of individual responses below.

Chapter 4 – Connection Procedures

In this chapter Ofgem outlines the statutory position on the requirement for any person who connects MG to a DNO network to inform the DNO. We are not convinced that this requirement is widely known and it is certainly possible that MG is being connected without a statutory notification being made. Tighter control over who is allowed to install such equipment, as discussed above, would improve confidence that such notifications are being made as required.

This chapter also outlines the recent guidance from the ENA (G83/1) on the technical requirements for connection of MG. We support the simplification of DNO involvement

in MG installation that G83/1 represents and, as discussed in more detail below, believe that there is no case at present for a significantly greater role for the DNO in industry processes associated with MG.

Chapter 5 – Selling exports from microgeneration

We agree that one of the drivers for customer interest in MG equipment is as an energy efficiency measure, aimed at reducing the householder's consumption of energy. On that basis, we firmly believe that such installations should be eligible for support under the Energy Efficiency Commitment. In our view, it should be possible to devise rules around the eligibility of such projects to ensure that maximum benefit is obtained from the support of the MG installation.

It is also possible for the householder to seek to sell the export, in which case some form of export metering would be required. We agree with Ofgem's assessment of the relatively high cost of processing export metering data compared with the value of the individual exports. For the foreseeable future, we expect that parties contracting to purchase the export from MG installations will seek to develop simple arrangements outside established settlement processes for remunerating the householder. At whatever point it becomes more practicable for the purchasing party to use settlement processes, it should be open to them to register the relevant metering point in settlement systems. Consideration may need to be given to allowing parties other than suppliers to register the metering point since, as Ofgem notes in chapter 3 of the document, purchasing the output produced by MG is not formally a licensed supply activity. It should be possible, in due course, to create another "generator/energy services company" category of party to the MRA which would have similar obligations to suppliers and would be able to register MPANs.

In the future, with increasing amounts of MG that seeks to be traded via central settlement systems, it may be worth reconsidering the present lack of distinction in the MRA between import and export metering.

Chapter 6 – Microgeneration Providers

<u>Consultation Question</u>

1. *Ofgem would be interested to hear from manufacturers and retailers regarding:*
   • the information currently provided to customers about the legal and technical responsibilities of microgeneration operators; and
   • any industry proposals for expanding the information and guidance currently provided. (6.8)

As discussed in our response to chapter 2, we believe that installation of MG equipment should only take place by approved installers. This would help to ensure that notifications are properly made to the DNO and may also facilitate links being made with suppliers in order to facilitate timely coordination of any necessary metering work.

We agree with Ofgem's analysis that householders contemplating DIY work will not necessarily be aware of statutory requirements, the ENA recommendations and of metering issues of concern to suppliers. To this list we would add the recent change to

the building regulations discussed in our response to chapter 2 of the document. It is also our view that however comprehensive the information provided by manufacturers and vendors, there is a strong possibility that it might be discarded or ignored. Hence our strong view that the activity of MG installation should not be allowed to become DIY and instead should only be undertaken by competent, approved installers.

Chapter 7 – Licenced suppliers and microgeneration

We do not agree that additional regulation is required for suppliers in relation to MG. A review is underway of supply licensing with a view to withdrawal of regulation and the proposed measures run counter to this. Furthermore, in a number of areas, parties other than suppliers could make contractual arrangements with customers in relation to MG. Ofgem is unable to impose obligations on these other parties and, in order to preserve a level playing field, should not seek to impose additional obligations on suppliers.

Ofgem Recommendation

1. Ofgem considers that, should it become necessary to introduce any licence amendment making reference to a matter relating specifically to domestic-scale microgeneration, a definition of 'domestic-scale microgeneration' consistent with both the threshold for the relevant notification provision in the ESQC Regulations and the definition of SSEG in ER G83/1 would be appropriate. It would seem sensible to adopt the same wording as ppears in the engineering recommendation. (7.8)

This approach seems sensible in itself but, as we have argued that no additional obligations relating to MG are necessary for suppliers, would not be necessary in this context.

Consultation Question

2. Ofgem invites comments on modification of Condition 16 or Condition 17 of the Electricity Supply Licence to ensure identification of reverse-running meters, which Ofgem considers are not appropriate for use in the case of microgeneration. (7.16)

As Ofgem notes, it is not in the interests of the import supplier for the import meter to be able to run backwards. It is therefore clearly in suppliers' interests to check for this and any other relevant factors of the meter installation when meters are inspected and also to act on any information they receive about the presence of MG at premises they supply. We are firmly of the view, therefore, that it is not necessary to give suppliers any specific obligations in this respect. Ofgem acknowledges, in any case, that reverse running would be difficult to detect on routine inspection.

Ofgem Recommendation

2. Ofgem's present view is that there may be insufficient grounds for placing suppliers under an additional obligation to notify the consumer of any export MPAN. (7.18)

We agree with Ofgem that, since export is a separate matter from supply, the import supplier should have no obligations to inform customers about any export MPAN.

Ofgem Recommendation

3. Ofgem considers that, for the purposes of Condition 25, supply should include

arrangements made under Article 10 of the RO, and that licensed suppliers should review their codes of practice on the efficient use of electricity with a view to including information on microgeneration. This would require modification of Condition 25. (7.21)

We do not agree with this recommendation and consider that Ofgem is being over-prescriptive about what suppliers in a competitive market should set out in their codes of practice. We believe that suppliers with an interest in MG will probably want to amend their codes and the information they provide to customers about the efficiency benefits of MG anyway. Our comments about MG eligibility for EEC funding in response to chapter 5 are also relevant here.

In relation to Ofgem's comments on Condition 32, we agree there should be no obligation on suppliers to purchase MG output.

Consultation Questions

3. A modification to the licence condition 36 could be made such that it would refer specifically to domestic-scale microgeneration. However, minor modifications to the codes of practice on use of prepayment meters could suffice to give consumers the relevant information. Ofgem would be interested to hear the views of suppliers, consumer representatives and manufacturers of metering and microgeneration equipment on what the content of such modifications should be. (7.30)

Our comments above in relation to the energy efficiency code of practice also apply to the code of practice on pre-payment metering (ppm) and we do not consider it necessary to give suppliers an additional specific obligation in this area. We agree that ppm technology currently appears unsuitable for use in conjunction with MG but we are aware that some newer technology meters may have greater capability in this respect.

4. Condition 41 could be modified to cover a contract dealing with, inter alia, supply of electricity to domestic premises incompatible with the licensee's supply obligations under the Electricity Supply Licence. Ofgem would welcome views as to the desirability of such a modification. (7.33)

We are firmly of the view that modification of condition 41 is completely unnecessary. As Ofgem comments, the current suite of licence conditions combine to provide the necessary protection for domestic customers.

Chapter 8 – DNOs and microgeneration

It would be sensible for there to be a simple route by which the DNO could inform the industry that it has been made aware that MG has been installed at premises. We note that Ofgem has been considering the idea (8.3) of using part of the import supply MPAN to label premises. This suggestion has merit providing the core MPAN is not used (as this would involve very significant system changes throughout the industry). It would appear possible for the line loss factor (LLF) element of the full MPAN to be used for this labeling, although we are aware that the LLF code has been used for a number of development purposes and available ranges of numbers may be limited. Assuming that these practicalities and the data protection issues discussed under chapter 10 can be addressed, this type of development would appear to offer a simple route whereby the

DNO could make information available to interested parties about the presence of MG at a premises (whether or not an export MPAN is created) using existing industry processes.

As indicated above, there are IT, system and data protection issues to be resolved in pursuing this route. It would appear appropriate for DNOs to consider the issues on a collective basis, perhaps through the Distribution Commercial Forum. Beyond this, we consider that a DNO's role in processes associated with MG should be fairly limited as these processes are primarily driven by suppliers or other parties with an interest in purchasing exported electricity.

Consultation Questions

5. 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)

In our view, there is no need for a DNO to create an export MPAN on receipt of notification of MG commissioning unless they are specifically requested to do so. The DNO will not be aware of whether or not there is an intention to trade or spill any electricity export. Logically, the decision on requesting an export MPAN should rest with the supplier or other party who has formed a relationship with the customer in order to purchase the export electricity. As noted above in our response to chapter 5, it is possible for this relationship to exist without registering the export in central settlement systems.

6. 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)

Following on from the above, we do not consider it necessary for a DNO to be required to notify owners or occupiers of premises of an export MPAN that has been created. The party creating the MPAN should do this as part of good customer service and the information made available by the approved installer could make customers aware that they may, in certain circumstances, have an additional MPAN created for their premises. As time goes by, the householder, or any interested party, can always make use of the DNO's MPAS enquiry service to establish the what the MPAN is if they wish to know.

In relation to an additional obligation on the DNO to notify the import supplier, we have discussed at the start of this section what might be a reasonable process for DNOs to make suppliers aware of the presence of MG at premises. We do not see any value in additionally requiring a DNO to notify the import supplier of the export MPAN.

Chapter 9 – Contractual Issues

One issue that occurs to us in relation to connection terms is that the installation of multiple MG units at a premises, which individually would class as G83/1 installations, could in aggregate put the overall installation above the G83/1 upper limit of 16A/phase. In this situation a site-specific connection agreement would be required. In our view, an

approved installer would be in the best position to assess the overall installation when multiple and/or additional MG installations are proposed at a site. If the installation would breach G83/1 limits, the approved installer could notify and involve the DNO accordingly.

Ofgem Recommendation

4. The Distribution Commercial Forum will be taking forward work on standard UoS terms for distributed generation. Ofgem considers that it would be sensible for this to cover domestic-scale microgeneration. (9.14)

Our initial thinking on this issue is that a MG use of system agreement is unlikely to be required unless a DNO intends to charge use of system for MG exports. However, given that this is a possibility for the future, we agree that it would be appropriate for the Distribution Commercial Forum to include MG in its consideration of appropriate use of system terms for distributed generation in general.

Chapter 10 – Metering Issues

Consultation Question

7. 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)

As Ofgem notes in the consultation document, data protection issues are relevant to the question of whether a DNO could pass on the information that a customer has installed MG equipment to that customer's import supplier. We note that other information relevant to the customer's metering point is routinely made available to suppliers through the operation of the MPAS systems. MG installation might be regarded as a qualitatively different type of information because it relates to what a customer has done on their own premises as distinct from a direct characteristic of their supply. However, we believe that a case could be made under data protection legislation that the supplier should be given the information by the DNO as it would be necessary for the proper performance of the supply contract between the customer and his electricity supplier. A further test in the data protection legislation is that the information can be given by the DNO if it is necessary for the purposes of legitimate interests pursued by the supplier and does not prejudice the rights, freedoms or legitimate interests of the customer. We believe that this matter should be tested with Information Commissioner before there is any move by DNOs to start passing on such information to suppliers.

Assuming the data protection issues can be resolved, and as stated in our discussion in response to Chapter 8 of the document, we believe that it should be possible for DNOs to devise a coding structure to indicate the presence of MG associated with an import MPAN. Some development work across DNOs would be necessary to establish a feasible approach. Administratively, some processes would need to be set up to capture the appropriate information and the extent of these is difficult to assess at present. We would not support any formal obligations on DNOs to notify the registered supplier in advance of the development and testing of such an approach.

Ofgem Recommendation

5. Ofgem is supportive of the idea that MPANs be 'labelled' in such a way as to highlight the presence of microgeneration. It would be helpful to build on the preliminary discussions that have taken place. (10.24)

We agree that this is a potential way forward.

Consultation Questions

8. Ofgem would welcome responses from any who might wish to use a dc meter for the registration of ROCs. It would be particularly useful to receive information on the additional costs likely to be incurred if an approved dc meter were not available. (10.27)

We have no particular comment on this, but do not expect that there would be much demand for such metering.

9. There is some anecdotal evidence that suppliers and domestic-scale microgenerators occasionally encounter difficulty in securing the installation of export metering and that the costs quoted can vary considerably, depending on the region. Ofgem would be interested to hear about instances in which difficulties have been experienced. (10.35)

On this topic, we would note that the costs of the visit to change or install metering can vary considerably due to geography and/or to the type of existing metering installation at the customer's premises.

10. Ofgem would be interested to learn from suppliers whether the data-capture units and check data available to meter readers are such as to enable them accurately to identify and record readings from import/export meters and whether mechanisms exist reliably to transfer this data into the billing process. (10.38)

We do not expect significant problems in this area although we have little experience as yet.

Ofgem Recommendation

6. Ofgem considers it to be good practice, wherever possible, to agree closing readings from the outgoing meter and opening readings on the new meter with the consumer. Ideally, the consumer should sign the meter change certificate. The register of the new meter will not read zero. There is scope for billing disputes arising from meter change. Such disputes can create costs for suppliers that considerably exceed the cost of meter change itself. (10.39)

On this subject, we would note that it will not always be the case that a customer is present at a meter change, for example where there is an outside metering cabinet. In our view, good practice in this area (for example, advice that a customer should take a note of meter reading(s) as soon as metering is changed) can be reinforced through the information made available by an approved installer.

Consultation Question

11. Ofgem would welcome other views on any of the issues covered in this paper.

We have three additional comments to make.

One situation that could develop in relation to MG is the potential for one import/export meter to be used by 2 suppliers if the import and export suppliers are different. For the half hourly market, the BSC requires that both suppliers appoint the same meter operator in this situation. It is silent on the issue for the non-half hourly market and a modification to make this market consistent with the half hourly market might be considered in due course.

We believe it is likely that suppliers will want to change their terms and conditions for domestic customers such that a customer installing MG would become liable for meter change costs if these are necessary. This possibility could be flagged up by approved installers as a possible implication for the customer.

We have already commented above that the installation of MG can certainly be seen as an energy efficiency measure that could qualify for support from the Energy Efficiency Commitment. Following on from this, we believe it could support the development of the MG market if the provision of MG equipment in conjunction with an import supply of electricity could be seen as an energy services contract, with the associated relaxation of certain domestic supply licence obligations.