

Distributed Generation Incentive Innovation Funding Incentive Registered Power Zones Regulatory Instructions and Guidance - Version 2

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Overview:

This document is Version 2 of the Regulatory Instructions and Guidance (Rigs) relating to the distributed generation (DG) incentive, innovation funding incentive (IFI), and registered power zones (RPZs). The purpose of the Rigs is to provide a framework for the collection and provision of accurate and consistent information from the electricity distribution companies (DNOs). These Rigs will take effect in April 2007.

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Team: Financial Reporting Team - Electricity Distribution

Target Audience: Electricity distribution network operators, distributed generators, electricity suppliers and other interested parties

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Context

1.1 Version 2 of the Regulatory Instructions and Guidance (Rigs) for distributed generation (DG) incentives, innovation funding incentive (IFI) and registered power zones (RPZs) has been produced in accordance with standard condition (SLC) 51 of the distribution licence. The purpose of the Rigs is to provide a framework for the collection and provision of accurate and consistent information from distribution service providers. This is important as it reduces the scope for inaccurate reporting and provides companies with certainty about what they should be reporting. Robust reporting of information benefits all those with an interest in the regulation of DNOs including generators and demand customers, the regulator and the DNOs themselves.

1.2 The Rigs include definitions and related instructions and guidance for collating the "specified information" as defined in SLC 51.

1.3 Any changes to the Rigs will comply with the change process set out in paragraphs 9 to 13 of SLC 51. Ofgem recognises that any significant changes to the scope or form of the information that it requests from the DNOs could increase not only the regulatory burden but also the perception of regulatory risk. It is Ofgem's intention to change the scope and form of the information it requests as infrequently as possible, consistent with Ofgem carrying out its duties under the Electricity Act 1989, the Utilities Act 2000 and the Energy Act 2004.

Associated Documents

Electricity Act 1989

Utilities Act 2000

Energy Act 2004

Electricity Distribution Licence Standard Conditions

**Electricity Distribution Licence Special Conditions
(as applicable to each DNO)**

**Ofgem's document "Structure of electricity distribution charges - initial
decision document" November 2003"**

Engineering Recommendation G83/1

Innovation Good Practice Guide (ENA designation G85)

**Ofgem's document "Further Details of the RPZ Scheme" (118/05) April
2005**

Table of Contents

1. Summary	1
2. Definitions, instructions and guidance for reporting terms relating to the DG incentive	2
Introduction.....	2
Definitions of terms	2
Relevant DG	2
Connection start date.....	3
Reporting year	3
Incentivised DG capacity	3
Total incentivised DG capacity	3
Total capex for DG.....	3
Direct cost.....	4
Use of system capex for DG	4
Shared connection capex for DG	4
Assets transferred from DG capex to demand capex	5
DG network unavailability	5
Network interruption duration	5
Baseline network interruption duration	6
DG network unavailability rebate payment	6
Further definitions, instructions and guidance	6
Disaggregated DG capacity information	7
Operational and maintenance costs for DG	7
3. Definitions, instructions and guidance for reporting related to the IFI	9
Introduction.....	9
Definitions of terms	9
Eligible IFI project	9
IFI carry forward	9
IFI annual report	10
Eligible IFI expenditure	10
Eligible IFI internal expenditure	10
Combined distribution network revenue	10
Innovation good practice guide.....	10
4. Definitions, instructions and guidance for reporting relating to RPZs	11
Introduction.....	11
Definitions of terms	11
Registered Power Zone (RPZ)	11
RPZ DG capacity.....	11
RPZ starting year	11
Innovation Good Practice Guide	11
5. Arrangements and required levels of accuracy for reporting	12
Introduction.....	12
Reporting arrangements	12
Terms relating to the DG incentive.....	13
Terms relating to the IFI	14

Terms relating to the RPZs.....14

Appendices 15

Appendix 1 - Standard template for reporting 16

Appendix 2 - Ofgem’s Statutory Responsibilities 18

Appendix 3 - Glossary..... 19

Summary

1.4 The Rigs cover the following main areas:

- Definitions, instructions and guidance for collating information on DG connection, innovation, and registered power zones; and
- An outline of the reporting arrangements, specification of the information to be reported, and the required levels of accuracy for reporting.

2. Definitions, instructions and guidance for reporting terms relating to the DG incentive

Introduction

2.1 This section sets out definitions and related instructions and guidance for the reporting of terms relevant to the implementation of the DG incentive.

Definitions of terms

2.2 Definitions to be applied for reporting on the terms relating to the DG incentive are shown below.

Relevant DG

2.3 This means an installation, comprising any plant or apparatus for the production of electricity, which:

- is directly connected to the DNO's distribution network or directly connected to an independent or private network (not including the onshore interconnected transmission networks) which in turn is connected to the DNO's distribution network;
- has a **connection start date** on or after 1 April 2005; and
- is eligible for use of system charges (if any) in accordance with the charging methodologies in place on or after 1 April 2005, but excluding generators who have paid deep connection charges and are exempt from use of system charges at least until 2010, by virtue of being pre-existing under the policy set out in Ofgem's "Structure of electricity distribution charges - initial decision document, November 2003."

2.4 An increase in capacity due to an upgrading or expansion after 1 April 2005 of a DG plant, whether or not existing before 1 April 2005, is regarded as a separate addition of DG plant for the purpose of the DG incentive scheme. Standby generators that operate in parallel with the distribution system for short periods of time for the purpose of testing only will not be included in this term.

Connection start date

2.5 This is the date, according to the agreements between the DNO and the relevant agents of the **relevant DG**, and as subsequently notified by the DNO, when all associated network connection and infrastructure reinforcement works necessary for DG's agreed commercial operations are in place so that the network is capable of accepting output from the generator at its agreed level of capacity. This will also be the starting date for the DG being eligible for use of system charges. In the case of generation whose connection does not require prior application, it is the date that the notification is served by the relevant agent of the generator in accordance with Engineering Recommendation G83/1 or any other means. Relevant agents are parties such as the generator owner, relevant suppliers, meter registrant or independent distribution network operator who enter into the connection and use of system agreement(s) with the DNO on behalf of the generator.

Reporting year

2.6 This is a period of 12 months to which reported information relates, beginning on 1 April of each calendar year and ending on 31 March of the following calendar year.

Incentivised DG capacity

2.7 This is the highest active electrical power that could be generated (or the relevant incremental change of this amount in cases of the expansion of existing DG plant) by a **relevant DG** for the **reporting year**, according to the connection and use of system agreement(s) in force on 31 March of that relevant year or notification in cases of generation covered by Engineering Recommendation G83/1.

Total incentivised DG capacity

2.8 This is the sum, for all the **relevant DG** in the licensee's distribution system, of the **incentivised DG capacity**.

Total capex for DG

2.9 This is the sum of all **direct costs** incurred by the DNO in the **reporting year** on installation or reinforcement of assets which are directly incurred for connecting the **relevant DG** for the current **reporting year** or proposed or expected **relevant DG** for subsequent **reporting years**. It includes both project-specific costs and general costs relating to overall generation development. In cases where costs on assets were incurred for the purpose of accommodating the new DG as well as the overall system requirement or new demand connection, this term should only include the costs that could have been avoided if the DG connection had been taken away from the design consideration. In other words, it should be the difference between the total costs calculated a) including the DG and b) excluding the DG. Costs under

b) which are required for other areas of distribution activities and therefore are covered by other price control mechanisms, such as the main price control allowance, the quality of supply incentive or the distribution losses incentive, should be excluded from this term but fed into other appropriate mechanisms. Costs incurred before 1 April 2005 for the purpose of connecting **relevant DG** after 1 April 2005 can be indexed by both the allowed pre-tax cost of capital of 6.9% and the percentage change in the Retail Price Index between 2004/05 and 2005/06 so as to be treated as 2005/06 costs.

2.10 The proposed or expected **relevant DG** for the subsequent **reporting years** referred to in the paragraph above should only include that for which the DNO, when requested by Ofgem can present reasonable evidence such as agreements to terms offered for connection and use of system, applications for connections and use of system, completed feasibility studies or the DG developers' applications for relevant planning permission.

Direct cost

2.11 This is all directly attributable costs (in accordance with the requirements of Financial Reporting standard 15 - Tangible Assets) incurred for installing or reinforcing the distribution assets. This should include distribution costs (including stamp duty, import duties etc); site preparation and clearance costs; installation cost; and professional fees

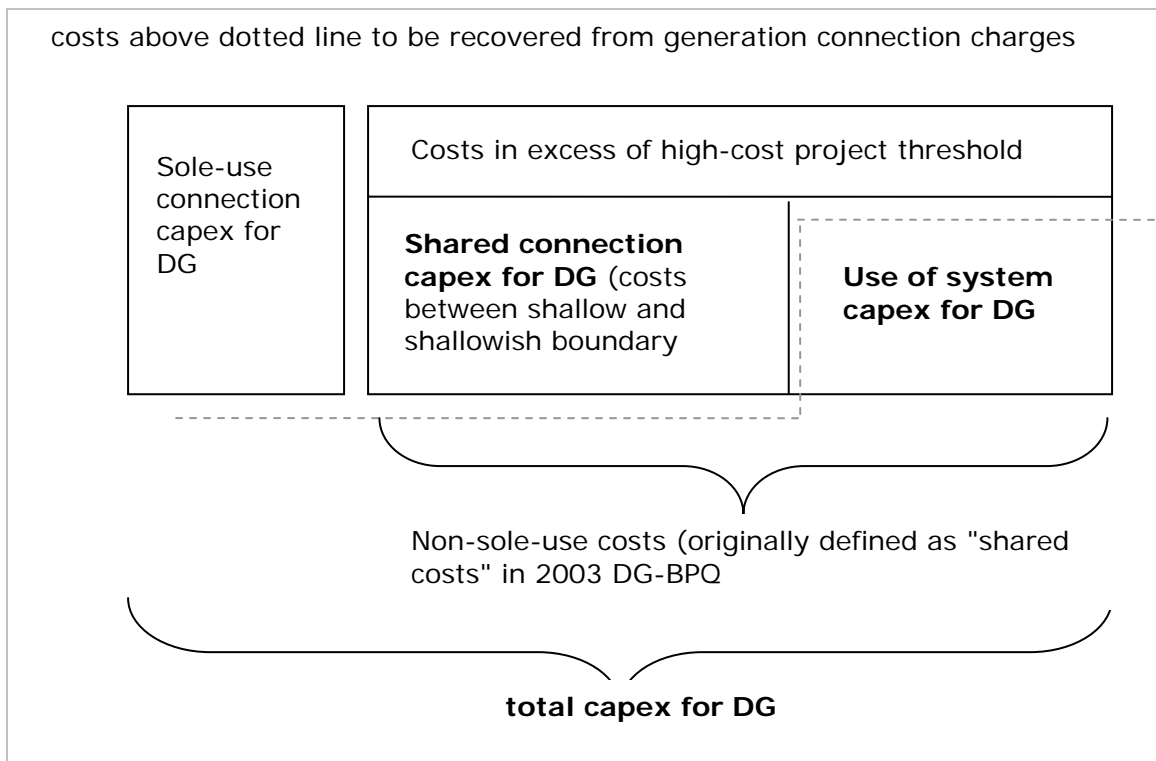
Use of system capex for DG

2.12 This is the **total capex for DG** minus all costs to be remunerated from the distributed generation connection charges which are payable to the licensee.

Shared connection capex for DG

2.13 This is the part of the **total capex for DG** that is to be recovered from distributed generation connection charges, which are payable to the licensee, but exclusive of all costs relating to sole-use assets and the incremental costs in excess of the high-cost project threshold (as set out in the distribution charging methodology).

2.14 For further clarification, the relationship between the **total capex for DG**, **shared connection capex for DG** and **use of system capex for DG** as defined above is set out in a schematic diagram below.



In this diagram, "sole-use connection capex" means that part of total capex for DG that is to be recovered from distributed generation connection charges in respect of assets required primarily for an individual customer, and "costs in excess of high-cost project threshold" means the amount by which total capex, exceeds £200/kW in 2005/06 prices.

Assets transferred from DG capex to demand capex

2.15 This is the amount of capex which has been transferred from the **use of system capex for DG** to the regulatory asset value which is used in setting the price control for demand use of system charges.

DG network unavailability

2.16 This is the sum, for all **relevant DG**, of the products resulting from the multiplication of the **network interruption duration**, experienced during the **reporting year**, by the **incentivised DG capacity** for each installation.

Network interruption duration

2.17 This is, for a **relevant DG** connected at HV or above, the total duration of all occurrences on the DNO's distribution system, within the **reporting year**, each of

which involves a physical break in the circuit between the **relevant DG** and the rest of the system or any other open circuit condition, which prevents that DG from exporting power for a consecutive period of three minutes or longer. It excludes

- 50 per cent of the total duration of cases where DNO takes pre-arranged outages of its equipment for which the statutory notification has been given to the DG;
- cases where the relevant agents for DG had specific exemption agreements with the DNO in the connection and use of system agreement(s), (relevant agents being parties such as the generator owner, relevant suppliers, meter registrant or independent distribution network operator who enters into the connection and use of system agreement(s) with the DNO on behalf of the generator); and
- cases where the network interruption was caused primarily by severe weather or other events as more fully described in Annex B and C respectively of special licence condition C2.

2.18 The start time of a network interruption is the earlier of the time at which:

- the first report, whether from DG, DNO's own alarm system, employee or agent, is received of a loss of connection or other abnormality which prevents a circuit or other item of equipment from carrying output from DG or being able to withstand "through fault current"; or
- the relevant circuit is automatically, deliberately or otherwise disconnected.

2.19 The completion of a network interruption is the time when the connection is restored from the network to the DG so that the DG is able to generate at its agreed capacity.

Baseline network interruption duration

2.20 This is the total **network interruption duration** in a **reporting year** for a **relevant DG**, above which the network unavailability rebate will apply.

DG network unavailability rebate payment

2.21 This is the total sum for all **relevant DG**, paid by the DNO when any DG's **network interruption duration** exceeds the **baseline network interruption duration** during the **reporting year**.

Further definitions, instructions and guidance

2.22 In addition to the terms directly linked with the calculation of revenue allowance under the DG incentive, there are other items of information which will be required in reviewing the ongoing operation of the incentive scheme.

Disaggregated DG capacity information

2.23 This will be the total **incentivised DG capacity** disaggregated into the following fourteen technology types:

Type	Description
1.1.	
1	Onshore wind
2	Offshore wind
3	Tidal stream & wave power
4	Biomass & energy crops (not CHP)
5	Hydro
6	Landfill gas, sewage gas, biogas (not CHP)
7	Waste incineration (not CHP)
8	Photovoltaic
9	Micro CHP (domestic)
10	Mini CHP (<1MW)
11	Small CHP (>=1MW, <5MW)
12	Medium CHP (>=5MW, <50MW)
13	Large CHP (>=50MW)
14	Other generation

Operational and maintenance costs for DG

2.24 These include:

- directly attributable costs in the current **reporting year** associated with the operation (i.e. directly attributable costs) and maintenance of the assets that have been included in the **total capex for DG** in the current and past **reporting years** starting from 1 April 2005; and
- a relevant portion of the indirect overhead costs incurred in the current **reporting year** on, or in support of, constructing, maintaining and operating the

whole distribution infrastructure required to facilitate network access to all distribution customers.

3. Definitions, instructions and guidance for reporting related to the IFI

Introduction

3.1 This section sets out definitions and related instructions and guidance to be used for reporting relating to the innovation funding incentive (IFI).

Definitions of terms

Eligible IFI project

3.2 A project will qualify as an **eligible IFI project** provided that it is designed to enhance the technical development of distribution networks (up to and including 132 kV) and to deliver value (i.e. - financial, supply quality, environmental, safety) to end consumers. **Eligible IFI projects** will meet the criteria outlined in Section 3 of the **Innovation Good Practice Guide**.

DNOs should commit to eligible IFI projects on the expectation that the present financial value of the portfolio of such projects as reported in the Annual report will be positive.

IFI carry forward

3.3 This is as defined in special condition C3 (Calculation of charge restriction adjustments arising from the innovation funding incentive scheme) of the distribution licence. The IFI carry forward value (KIFIt) is to be reported on three occasions each year as follows:

i. **As a forecast figure on or before 1 April** [SLC51 para 5.(b)]

This is a forecast of the value of KIFIt applicable to the financial year commencing on that same 1 April. For example, the figure to be reported by 1 April 2007 is a forecast of the KIFIt value for 2007/08 i.e. the amount which is expected to be carried forward from 2006/07. This figure can be sent as an email with the subject description "IFI carry-forward forecast" to finrepteam@ofgem.gov.uk without the need for a separate letter of submission.

ii. **In the standard template on or before 31 July** [SLC51 para 5 (a)]

This is the value of KIFIt applicable to the financial year ending on the preceding 31 March. For example, the figure to be reported by 31 July 2007 is the amount which was carried forward from 2005/06 to 2006/07

iii. **In the IFI annual report on or before 31 July** [SLC51 para 5 (a)]

This is the value of KIFIt applicable to the financial year commencing on the preceding 1 April. For example, the figure to be reported in the annual report by 31 July 2007 is the amount which has been carried forward from 2006/07 to 2007/08.

IFI annual report

3.4 This is the annual report of a DNO's IFI activities in a format agreed with Ofgem

Eligible IFI expenditure

3.5 This means the amount of expenditure spent or accrued by the licensee in respect of **eligible IFI projects** in a **reporting year**.

Eligible IFI internal expenditure

3.6 This means that amount of **Eligible IFI expenditure** spent or accrued on the internal resources of the licensee in a reporting year.

Combined distribution network revenue

3.7 This will be as defined in special licence condition A1 (Definitions and interpretation) of the distribution licence.

Innovation good practice guide

3.8 This is a good practice guide for the management of research and development in distribution companies including such subjects as project appraisal, value quantification, project management, budgeting and accounting and reporting. This **Innovation Good Practice Guide** will be submitted by the DNOs to Ofgem for approval prior to the commencement of **eligible IFI projects** unless otherwise agreed with Ofgem.

4. Definitions, instructions and guidance for reporting relating to RPZs

Introduction

4.1 This section sets out definitions and related instructions and guidance to be used for reporting relating to the registered power zones (RPZs).

Definitions of terms

Registered Power Zone (RPZ)

4.2 An area comprising a collection of contiguously connected distribution system assets having one or more terminal points which together describe in full the boundary of that area with the distribution system and which has been registered with the Authority as a registered power zone in accordance with special condition D2 (Calculation of charge restriction adjustments arising from the incentive schemes for distributed generation and registered power zones). The **Innovation Good Practice Guide** and Ofgem's document "Further Details of the RPZ Scheme" (118/05) provide further guidance on the criteria defining **RPZs**.

RPZ DG capacity

4.3 The sum of **incentivised DG capacity** of all the **relevant DG** whose connection point is contained in a **RPZ**.

RPZ starting year

4.4 The **reporting year** in which the **RPZ** was first registered.

Innovation Good Practice Guide

4.5 A good practice guide for the management of research and development in distribution companies including such subjects as project appraisal, value quantification, project management, budgeting and accounting and reporting. This **Innovation Good Practice Guide** will be submitted by the DNOs to Ofgem for approval prior to the commencement of **RPZs** unless otherwise agreed with Ofgem.

5. Arrangements and required levels of accuracy for reporting

Introduction

5.1 This section sets out the arrangements and minimum levels of accuracy for the reporting of terms relevant to the DG incentive, the innovation funding incentive (IFI) and registered power zone (RPZ) schemes.

5.2 All information provided should be an accurate representation of the information available to the licensee, such information being sufficient to ascertain the value of the terms to the minimum levels of accuracy as set out in this section. They are expressed in absolute, rather than relative, terms, i.e. in terms of relevant physical units, and the values given are the maximum amount by which the DNO's reported figure can deviate from the correct figure. For terms which are based on information provided by a third party, the correct figure will also be derived from such information. For terms whose values are derived according to relevant rules, for example for apportioning certain costs, the correct figure will contain a tolerance level that is allowed in such rules.

Reporting arrangements

5.3 As defined in Chapter 2, the normal reporting year for the provision of information required under the DG incentive, the IFI, and the RPZ schemes will be a period of 12 months beginning on 1 April of each calendar year and ending on 31 March of the following calendar year. Ofgem expects to publish the RIGs at least one month in advance of the relevant reporting year, normally in February. At the same time Ofgem will also provide the DNOs with standard templates that should be used for the reporting of relevant information. Any changes to the RIGs will have been consulted on for a period of time in accordance with paragraphs 9 to 13 of SLC 51. Where these changes do not relate to information included in the incentive scheme or the required level of accuracy the consultation period will not be less than 28 days.

5.4 DNOs will normally be required to provide the information specified in the following sections at the end of the reporting year and by no later than the immediately following 31 July. This date is the earliest that information can be requested for submission. Ofgem may specify a later date if it considers that it is appropriate. Once the DNOs have submitted the information to Ofgem, Ofgem may undertake an audit of the information over the course of the subsequent months following the submission.

Note: There is a requirement in paragraph 5(b) of standard condition 51 for a forecast of the IFI carry forward value to be provided by 1 April annually. The information required is explained at paragraph 3.3. above.

Terms relating to the DG incentive

5.5 The table below specifies the quantified information to be included in the reporting relevant to the DG incentive and the minimum levels of accuracy required for that reporting.

Term	Minimum level of accuracy
Total incentivised DG capacity	0.1 MW
Disaggregated DG capacity	0.1 MW
Total capex for DG	£0.1m
Use of system capex for DG	£0.1m
Shared connection capex for DG	£0.1m
Assets transferred from DG capex to demand capex	£0.1m
DG network unavailability	100 MWh
DG network unavailability rebate payment	£0.01m
Operational and maintenance costs for DG	To be estimated to the level of £0.01m

Terms relating to the IFI

5.6 The table below specifies the quantified information to be included in the reporting relevant to the IFI and the minimum levels of accuracy required for that reporting.

Term	Minimum level of accuracy
IFI carry-forward	£1k
Eligible IFI expenditure	£1k
Eligible IFI internal expenditure	£1k
Combined distribution network revenue	£0.1m

5.7 In addition, DNOs will be required to submit the IFI annual report.

Terms relating to the RPZs

5.8 The table below specifies the quantified information to be included in the reporting relevant to RPZs and the minimum levels of accuracy required for that reporting.

Term	Minimum level of accuracy
RPZ DG capacity	0.1 MW

5.9 In addition, DNOs will be required to provide the following information for each relevant RPZ:

- A schedule of all RPZ projects planned, committed, under construction and operational detailing their starting year, generating capacity in MW, connection cost and a summary of the innovation content of the RPZ; and
- For operating RPZs a report of the performance achieved in the reporting year will be submitted in a form agreed with Ofgem.

Appendices**Index**

Appendix	Name of Appendix	Page Number
1	Standard template for reporting	21
2	Ofgem's statutory responsibilities	23
3	Glossary	24

Appendix 1 - Standard template for reporting

Distributed Generation Incentive
 Innovation Funding Incentive
 Registered Power Zones

Aggregated template for end of year reporting

Regulatory report for DG incentive, RPZs and IFI

Reporting year **XXXX/XX**

[Enter company name here]

Distributed generation (DG) incentive

Total incentivised DG capacity (MW)	
total capex for DG (£m)	
use of system capex for DG (£m)	
shared connection capex for DG (£m)	
assets transferred out of DG capex to demand capex (£m)*	
DG network unavailability (MWh)	
DG network unavailability rebate payment (£m)	
operational & maintenance costs for DG (£m)	
Innovation funding incentive	
IFI carry forward (£m)	
eligible IFI expenditure (£m)	
eligible IFI internal expenditure (£m)	
combined distribution network revenue (£m)	
Registered Power Zones (RPZs)	
[Enter RPZ name here]	
RPZ DG capacity (MW)	
RPZ starting year (YY/YY)	

(For more than one RPZ, please copy and insert the above three rows)

paste additional RPZ rows in this area if required

*An explanation and further details for any non-zero entry, including the remaining asset values, the number of years in the remaining annuity period, and the scaling factor for the transfer into demand capex, should be provided in an accompanying narrative.

Disaggregated template for end of year reporting

Incentivised DG capacity in technology types

Reporting year XXXX/XX

[Enter company name here]

Technology Types	DG capacity (MW)
Onshore wind	
Offshore wind	
Tidal stream & wave power	
Biomass & energy crops (not CHP)	
Hydro	
Landfill gas, sewage gas, biogas (not CHP)	
Waste incineration (not CHP)	
Photovoltaic	
Micro CHP (domestic)	
Mini CHP (< 1 MW)	
Small CHP (> = 1 MW, < 5MW)	
Medium CHP (> = 5MW, < 50MW)	
Large CHP (> = 50 MW)	
Other generation	

Appendix 2 - Ofgem's Statutory Responsibilities

1.1. Ofgem is the Office of Gas and Electricity Markets, regulating the gas and electricity industries in Great Britain. Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority. The Gas and Electricity Markets Authority has the ultimate responsibility for all that Ofgem does. It determines strategy and decides on major policy issues.

1.2. Ofgem's powers and duties are provided for under the Gas Act 1986, the Electricity Act 1989, as amended principally by the Utilities Act 2000, Competition Act 1998, Enterprise Act 2002 and Energy Act 2004. Ofgem has concurrent powers with the Office of Fair Trading ("OFT") to apply the Competition Act 1998 to the gas and electricity sectors in Great Britain.

1.3. Ofgem's principal objective is to protect the interests of consumers present and future, wherever appropriate by promoting effective competition. We must also have regard to:

- The need to ensure that all reasonable demands for electricity and, so far as is economical, gas are met
- The need to secure that licence holders are able to finance their obligations, and
- The interests of those people who are disabled or chronically sick, of pensionable age, living on low incomes, or living in rural areas.

1.4. We are also required to carry out our functions in the manner, which we consider best calculated:

- To promote efficiency and economy including efficient use of energy
- To protect the public from dangers
- To contribute to the achievement of sustainable development
- To secure a diverse and viable long term energy supply, and
- Shall have regard, in carrying out those functions, to the impact on the environment of the gas and electricity industries.

1.5. In carrying out our functions we must also have regard to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed; and any other principles that appear to us to represent the best regulatory practice.

1.6. Furthermore, we must have regard to social and environmental guidance issued by Ministers. Ofgem also has a duty to consult and take into account any advice given by the Health and Safety Executive about all gas and electricity safety issues that may be relevant to our functions under the Gas Act and the Electricity Act.

Appendix 3 - Glossary**C**

Capex Capital Expenditure

D

DG Distributed Generation

DNO (electricity) Distribution Network Operator

I

IFI Innovation Funding Incentive

R

RIGs Regulatory Instructions and Guidance

R

RPZ Registered Power Zone

S

SLC Standard Licence Condition (Electricity Distribution Licence)