

Distributed Energy (DE) Working Group, Ofgem, 30 May 2007

Attendees

Name	Organisation	Name	Organisation
Phillip Davies	Ofgem (Chair)	Malcolm Taylor	AEP
Rachel Fletcher	Ofgem	Alan Jones	London Climate Change Agency
John Kemp	Ofgem	Terry Ballard	nPower
Nick Rubin	Ofgem	Leigh Bolton	Cornwall Consulting
Vanja Munerati	Ofgem	Matthew Nunn	EDF
Ijaz Rasool	Ofgem	Mike Smith	Utilicom
Cherie Davis	Ofgem	Tony Thornton	Centrica
Stephen DeSouza	DTI	Katherine Marshall	SSE
Rita Wadey	DTI	Dave Miller	CE Electric

- The purpose of the Group is to investigate and propose options for removing barriers in the market and licensing arrangements to the development of Distributed Energy. The aim of the first meeting was to set the direction of the Group through debating the Terms of Reference and the discussion paper circulated by Ofgem prior to the meeting.

Summary of discussion

- The Group agreed that the focus of the workgroup should not be exclusively on electricity generation and the term Distributed Energy rather than Distributed Generation should be used.

Terms of reference

- Most participants offered general support for the draft terms of reference for the working group, but Ofgem still welcomed comments after the meeting.
- Ofgem stressed the importance of customer choice and highlighting the need to examine the options within the current licensing regime before considering licence exemption or new licence classes. This is the position put forward in the Energy White Paper and in the DG Review.
- Ofgem stated that the work on Micro Generation (MG) will run in parallel to the Distributed Energy workstream. Ofgem committed to ensuring a consistent approach is taken across the two workstreams. The working group will be informed of and feed into the discussion of MG and other related initiatives such as the cash out review.
- It was agreed that the workgroup should seek the views of existing Distributed Energy schemes and aggregators, e.g. Smartest Energy to promote effective discussion.

Opening remarks

- The group was invited to make its opening remarks on the issues facing Distributed Energy. These remarks tended to relate either to the impetus behind the growth of Distributed Energy Schemes or to concerns and comments about the current licence framework.

Growth of Distributed Energy initiatives

- The desire to avoid higher import prices offered by licensed suppliers in favour of cheaper locally generated energy has led to a growth in demand for distributed energy solutions.
- It was noted that going forward new planning rules in relation to zero carbon homes may require customers and developers to make further investment in Distributed Energy schemes.
- It was suggested that the private wire model could deliver advantages particularly when failures are present on the centralised network highlighting the interest in local security of supply. Private wires model vs. public network model were discussed with no clear conclusion on the issue.
- DTI added that government had committed itself to a move towards the energy services model by introducing the Carbon Emissions Reduction Target frameworks and that a call for evidence would be published shortly.
- In order to improve its understanding, Ofgem asked members involved in Distributed Energy schemes to provide details of these schemes for further analysis.

Licence framework

- Key issues/concerns raised were:
 - whether any barriers to DE take-up could be resolved and benefits delivered to DE within the current licensing framework
 - the current exemption limits (50MW) were difficult to interpret and were holding back the development of DE networks
 - there is too sharp a distinction between being an exempt supplier and having to comply with the full supply licence
 - whether a new class of licences or increasing the exemption limits should also be considered and not explicitly ruled out.
- It was suggested that a code of practice developed by the CHPA could give initial direction to the possible development of a new licence type for ESCOs.
- There was some discussion as to why Distributed Energy could not be developed under the existing licence framework. Ofgem invited participants to set out what features of the current supply licence formed barriers to Distributed Energy projects.
- There was some discussion as to the benefits a new class of licence would provide and it was suggested that it would be easier for Distributed Energy projects if there could be a single licence for generation, network and supply.
- There was also discussion around the need for ESCO licences to include environmental standards and standards of performance to protect customers. There was a suggestion that customers might be protected by the ability to change the party responsible for running the Distributed Energy project.
- The view was expressed that there should always be a mechanism to allow customers to switch supplier and that customers were likely to remain interested in price first before the green credentials of their energy supplier.

- The view was expressed that if a licence exempt arrangement (or new class of licence) was put in place to encourage the take up of DG these arrangements could be reviewed and may be changed in the future.
- It was suggested that the advantages and disadvantages of working within or extending the existing licence framework should be considered further.
- It would help to design the regulatory framework for Distributed Energy if we understood what percentage of total supply it was likely to represent in the longer term. A related point was made that any arrangements put in place now should be scalable.

Discussion on the “value of distributed energy” paper

- Ofgem had circulated a discussion paper on the value of distributed energy as a way of setting out its thoughts on the starting point for the work group and the key questions that it should be answering. The key points in this paper and the accompanying presentation were:
 - The White Paper is clear that there is a clear logic to arrangements that allow the development of Distributed Energy within the licensed arrangements;
 - A good starting point for the investigation is whether Distributed Energy schemes are able to obtain the real value of their electricity when they contract for export top up and back up;
 - This will allow us to identify any market or system failures that need to be addressed, and to identify transaction costs that could be reduced;
 - There is view that export and import prices should be the same to DE projects. This may be misguided given the network, balancing and customer service costs associated with import.
- The following points were raised in discussion:
 - It was suggested that ESCOs might be capable of offering better value for exported energy as they were more capable of effectively matching generation with demand and servicing customers at a cheaper rate.
 - it seemed strange a DE scheme would find it more cost effective to undertake all distribution, generation and supply activities themselves rather than contracting out to existing suppliers and distributors who were more capable of taking advantage of existing economies of scale and experience.
 - there may be problems with the current cash out arrangements, and that better rewards could be secured for spilled energy
 - large suppliers were not interested in providing ‘good’ offers for export (although this point was challenged)
 - large suppliers generally were not interested in DE as they did not view it as economically viable
 - there may be insufficient Distributed Energy to attract aggregators and transitional measures might be required until this situation changed.

- changes to the current industry arrangements can be made via a number of routes such as modifications to industry codes and agreements, changes to licences and through self-regulation
- customers are interested in DE as it provides low carbon energy and improved security of supply. There was a discussion about the value customers place on security of supply
- it was suggested that in order for Distributed Energy to develop successfully suppliers and/or ESCOs would need to be able to lock customers into lengthy contracts in order to cover the high costs of service and installing and maintaining technology at customer's premises
- In general, the view of the Group was that it would be helpful to develop a better understanding of the market as it is and to establish whether there are particular problems with the existing market arrangements that need attention.
- Ofgem invited participants to provide comments on the working paper after the meeting in the light of the short time given for participants to review and obtain input from colleagues on the paper.

Person – By

Actions

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| 1. Invite and/or seek the views of existing distributed energy schemes and aggregators. | Ofgem |
| 2. Send comments on discussion paper and Terms of Reference to Rachel Fletcher | All |
| 3. Send views to Rachel Fletcher as to the gaps or barriers in the existing licence framework that are restricting the development of Distributed Energy. | All |
| 4. Send details of Distributed Energy Scheme in Woking to Rachel Fletcher. | Allan Jones |
| 5. Send Rachel Fletcher details of CHPA's code of practice. | Allan Jones |

Date of next meeting

- The next meeting will be held at Ofgem on 5 July at 10am.