



Promoting choice and value
for all gas and electricity customers

Distributed Generation Workgroup: Opening Comments

Philip Davies
30 May 2007

Purpose of today's meeting

- Provide background on the reasons for the workgroup
 - And the parameters for the work already set by the White Paper
- Via discussion on our first paper
 - Get feedback on the key issues the workgroup needs to address
 - Get ideas from the group on how to address these issues

 This will feed into an issues register and a work plan that Ofgem will circulate after the meeting

- Get inputs on who should be in the workgroup

Background to the workgroup

Process for removing barriers to DG

July 2006 – Energy Review - *identifies need to look at barriers to DG*

2006/2007 – DTI/Ofgem DG Review - *makes findings based on call for evidence*

May 2007 – Energy White Paper - *sets out key policies*

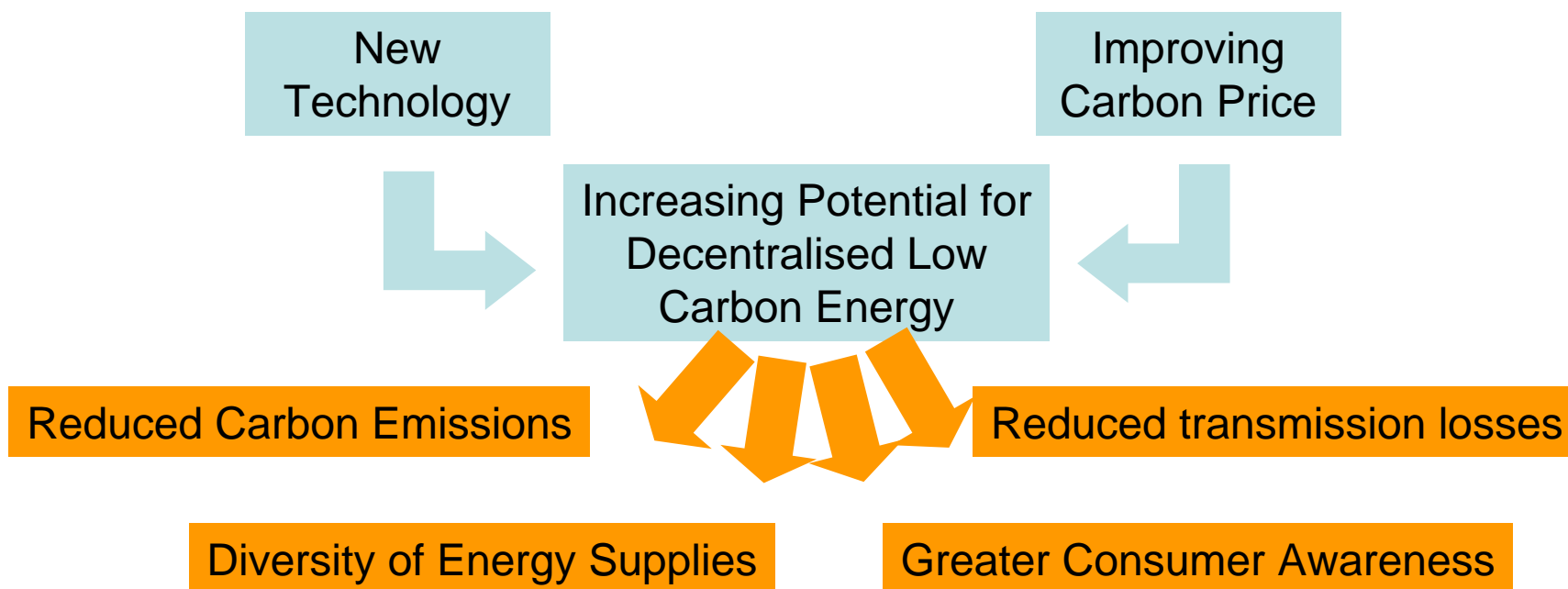
May 2007 – working group - *to review market and licensing arrangements*

Autumn 2007 – DTI/Ofgem Consultation on proposed measures

End 2008 – Measures implemented

Where DG defined as distribution connected low carbon electricity generated on a community scale and good quality CHP

Why the DTI /Ofgem Distributed Generation Review?



Many potential benefits from ensuring that, as it becomes cost effective, greater use can be made of Distributed Generation

Key Obstacles to DG - Findings of the Review

- **Costs**
 - High capital costs
 - True carbon cost not reflected in the electricity price
- **Information gaps**
 - What technologies are available
 - How to access grants/rewards
 - Who are reliable installers
- **Electricity Industry**
 - Difficulty in getting connections
 - Costs to suppliers of rewarding small generators
 - Difficulty in getting export reward
 - Complexity of interfacing with the market
- **Planning Regulations**



Key overlap between the DG Agenda and Ofgem's areas of responsibility

Government/Ofgem work going forward will seek to remove the barriers to the greater take up of DG

"..to provide opportunities for DG, where it proves to be cost effective ..." by ensuring that:

- New market opportunities are identified
- People are aware of new possibilities emerging
- The regulatory and market environment are user friendly
- People are not constrained by complexity
- People are able to reap a fair reward from reducing their carbon emissions
- Genuine market failures are resolved

"... to encourage further development of DG within the licensed framework, rather than outside it"

Core objectives of our work: Ensure market and licensing arrangements do not contain unnecessary barriers to DG

Why the EWP focus on encouraging DG *within* the licensed framework?

- Supply licences ensure
 - Safety of electricity distribution and supply
 - Consumer protection
 - The integrity of the competitive retail market
 - The necessary interfaces with the competitive wholesale market
- We have just completed a comprehensive review of the Supply Licence
 - It is being significantly simplified

Not appropriate to:

- Create new class of licence for DG
- Raise the exemption limits



ofgem

Promoting choice and value
for all gas and electricity customers



Promoting choice and value
for all gas and electricity customers

Introduction to the discussion paper

DG workgroup meeting
30 May 2007

Proposed Starting Point for this Investigation

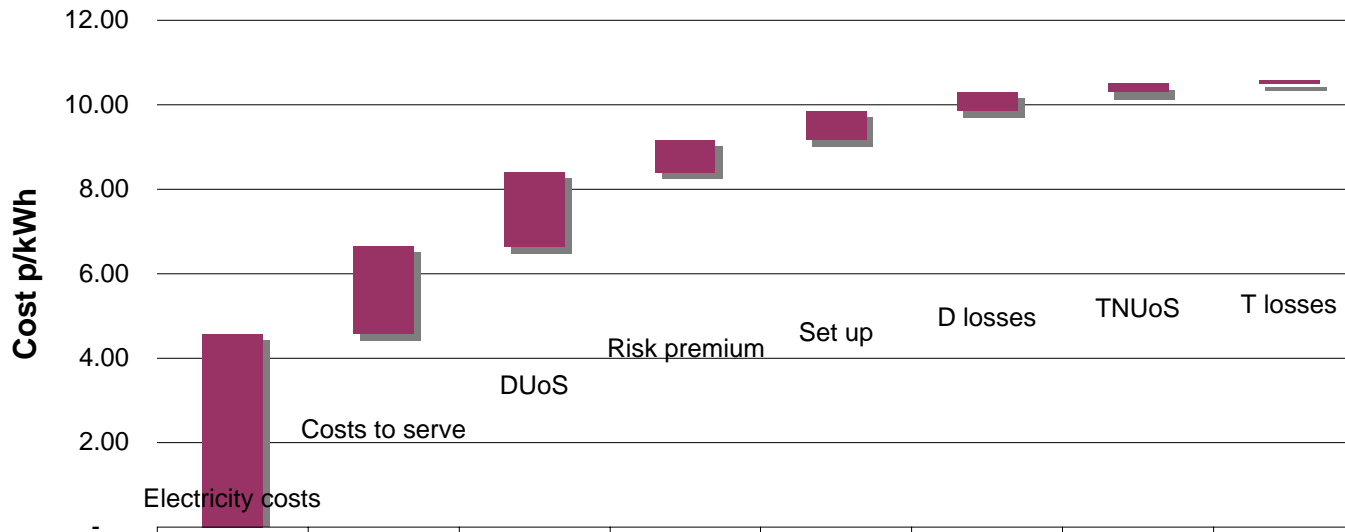
- **What is the real value of electricity from DG**
 - Is this reflected in export reward/offers for top up and back up?
 - If not why not?
 - What is driving this reward
 - Can the associated costs be reduced
 - Are there economic benefits that are not being captured
 - Does the answer depend on the scale/type of DG
- **In the course of answering these questions**
 - Where are the information gaps?
 - Where are the market/system failures?
 - Where do the complexities arise?
- **What measures could address these problems?**
 - Changes to cash out arrangements?
 - Other industry code modifications to make participation simpler/cheaper?
 - Research on load profiles?
 - Greater involvement of intermediaries?

What is the real value of electricity from DG?

- If selling entire output to a third party supplier value dependent on
 - The predictability of the generation- spill price vs scheduled value
 - Negotiated embedded benefits
 - Value of eligible ROCs, LECs
- If setting up as a supplier then value reduced by
 - System set up costs – customer management [and trading]
 - Balancing costs and risks- top up/back up vs balancing market
 - Customer switching risks

Much concern within DE community that export reward is not comparable with import prices Is this concern misplaced ?....

Import prices are driven by network, balancing and customer costs but export prices only driven by the wholesale value of the electricity



But difference closes significantly once the value of ROCs and LECs included



ofgem

Promoting choice and value
for all gas and electricity customers

Arrangements going forward

- Given what we have discussed:
 - Are there other players we should be inviting to the meetings?
 - Who would it be useful for us to speak to?
 - Are there papers/information that your organisation can come forward with?
- We will circulate an issues log from this meeting and a work programme for the workgroup
- Proposed next meeting: morning of 5 July
- We will circulate another discussion paper ahead of 5 July meeting



ofgem

Promoting choice and value
for all gas and electricity customers