

The background features a large, stylized white arrow pointing to the right, set against a blurred image of a modern building with a glass facade and a large, glowing light fixture. The overall color palette is light and airy, with soft blues and whites.

Distributed Energy Working Group

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Purpose of today's meeting

- Progress to date
 - Summary of first meeting
 - Parameters of debate
 - Licensing / microgeneration
 - Progress to date
- Key issues
- Way forward

Summary of first meeting

- Agreed name change:
 - “Distributed Energy” rather than “Distributed Generation”
- Concern expressed that options should not be ruled out:
 - Exemption limits, new class of licence
- Agreed the Working Groups Terms of Reference
 - Request for inclusion of microgen
- However:
 - Discussion paper attempted to identify the issues
 - Very little response from group

Parameters of debate

- Principles of market and regulatory arrangements:
 - Encourage competition
 - Enable sustainable development
 - Protect customers (primarily via competition)
 - Remain technology neutral
- When considering changes to the arrangements need to ensure:
 - Principles are upheld
 - No “free riding”

New licence, exemption limits

- The EWP notes that options for DG developments should be encouraged within the existing framework:
 - Para 3.50 *“In the context of Government’s overall energy policy goals, we believe that any action to address these barriers should: encourage, where possible, further development of DG within the licensed framework, rather than outside of it”*
 - Para 3.58 *“...in the future, as we hope to move towards increased levels of DG across the country, Government is committed to improving the market opportunities so that DG can flourish inside the licensed framework.”*
- This is not a new position or a position exclusive to Ofgem

Microgeneration

- Microgeneration issues considered in a separate forum that has been meeting for the past year – we will endeavour to ensure common issues are communicated across both groups
- No formal workstream - although dealing with specific request from Treasury
- Issues more related to transaction costs (particularly metering) and simplifying settlement - not concerns raised by DE group
- Group members are welcome to submit papers on MG to the DE group
- Enough DE issues to consider before end Nov 2007

Progress to date

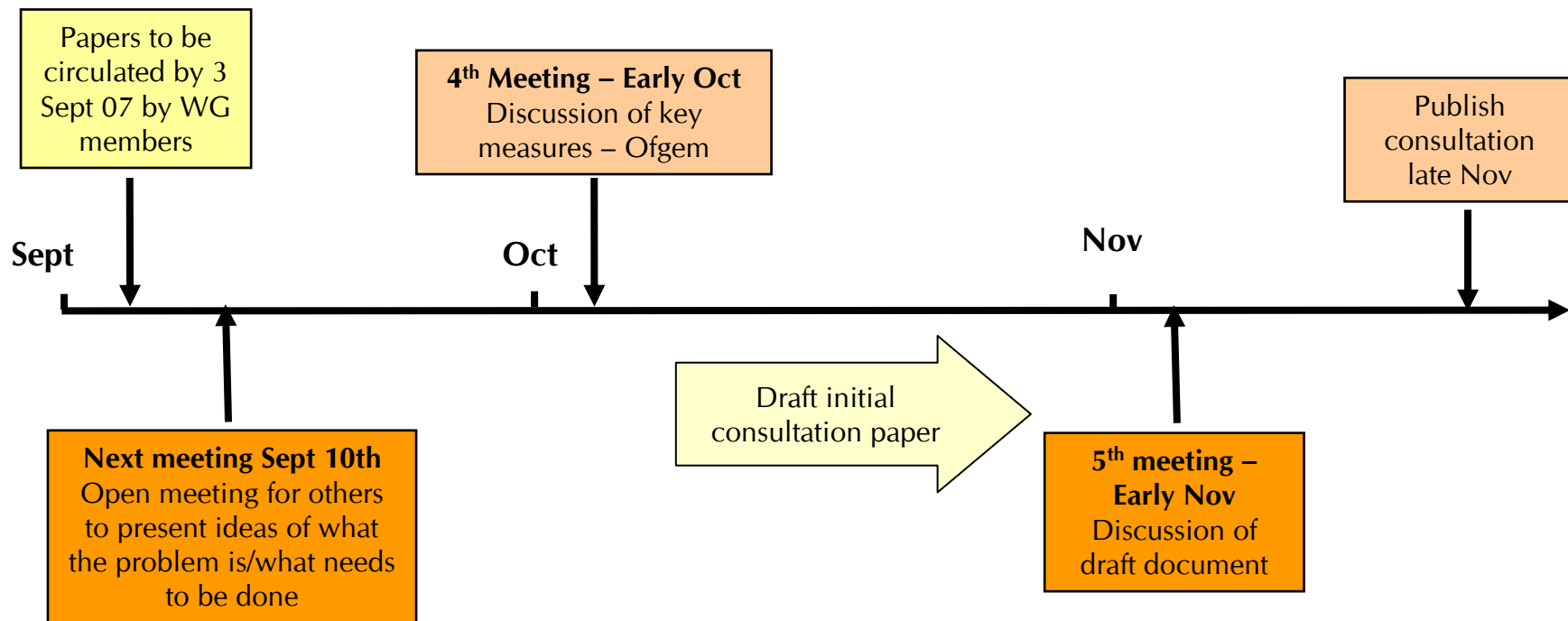
- Agreed name change and TOR
- Circulated two discussion papers to facilitate the debate
- Met with a range of companies

Organisation	Issue Discussed
Smartest Energy	Role of an independent aggregator/supplier
Good Energy	Exempt Supplier Services
RWE Npower	Exempt Supplier Services / Pricing
AEP	Exemption limits / NPFA
LCCA	Licensing
CE Electric	Value of DE to D & T networks
EDF Energy	Housekeeping / General observations
Microgeneration Council	General observations
Office of Climate Change	De-carbonisation of heat
Michael King	General discussion
CHPA	General discussion
Cash Out Review	Progress of review

Way forward

- Working Group members to provide feedback within two weeks
- Minutes and slides from second meeting will be placed on Ofgem's website
- Next WG meeting will be an 'open meeting'
 - Any submissions must outline:
 - the issues with the current arrangements
 - proposed solutions to the issues identified
 - Slides/papers must be submitted by 3 Sept 2007

Timeline





Promoting choice and value
for all gas and electricity customers

The background features a collage of images: a large white arrow pointing right, a field of solar panels, a glowing lightbulb, and a close-up of a gas valve. The text "Key issues" is centered over the collage.

Key issues

Key issues identified in the discussion paper:

- DE receives a fair reward for exports?
 - lack of competition and/or arrangements suppress value?
- Artificial incentive to construct private wires?
 - disproportionate public network transaction/usage costs?
- Risks of operating in a competitive supply market?
 - difficulty in financing without risk mitigation?
- Exempt supply services reduce cost and complexity of operating within framework?
- What licensed exemptions can be realised by DE schemes?

DE receives a fair reward for exports?

- Value driven by:
 - Predictability of generation asset: reliability and predictability of output (impact on balancing risk)
 - Supplier transaction costs and expected margin
 - Embedded benefits: reduced losses, reduced system charges, avoided TUoS
 - Volume of output
 - Supplier competition for exports

If value diminished, what are the reasons?

Artificial incentive to construct private wires?

- Costs of using a public wire network include:
 - Additional metering, supplier margins, structure of DUoS charges

Do these accurately reflect the cost of using the public network?

- Incentives to construct private wire networks arise from:
 - *Genuine economic benefit, distortion in pricing policies or issues within the licensing framework?*

What are Working Group member's views?

Suppliers face risks of operating in the supply market

- Customer switching and credit risk
 - Not an issue for an exempt supplier
 - 28 day rule to be removed by SLR
 - Low marginal pricing
 - Householders default on bills,
- What is stranded?
 - Value of scheme largely driven by heat?
 - Heat Vs Electricity
- What can be done to secure financing
 - *secure on own supply ie council buildings*
 - *long term customer contracts*
 - *include in house cost?*

Exempt supply services can reduce cost and complex of operating in market

- Services provided by suppliers to parties operating outside of the licensed framework include:
 - Meeting obligations of the BSC and MRA
 - Providing top-up and back-up services
 - Providing metering and billing services

Is there adequate availability of these services in the market?

Could these commercial arrangements be better designed to facilitate DE projects?

Application of Exemption Order 2001

- Licence issues cut across all the key areas outlined in the previous slides
- With respect to the Exemption Order 2001
 - As DE schemes become more complex so the legal issues raised by Exemption Order 2001 become onerous

Is there a case for introducing more clarity into the 2001 Exemption Order?

The background of the slide is a composite image. On the left, there is a close-up of a gas meter with a blue dial and a white cover. On the right, a hand is holding a white document or envelope. The overall color palette is light and airy, with soft blues and whites. At the top, there is a dark blue horizontal bar with a tab-like shape on the left side.

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Promoting choice and value
for all gas and electricity customers