

OFGEM

DPCR5-LOOKING AHEAD

RESPONSE FROM THE COUNTRY LAND AND BUSINESS ASSOCIATION

CONTEXT

The Country Land and Business Association (CLA) represents 37,000 members who between them own and manage more than half the rural land in England and Wales. Many of our members are involved in the questions arising from DPCR5, as electricity consumers, the owners of land across which electricity is carried on pylons and poles, and in increasing numbers as generators of electricity supplies.

Moreover, our membership owns the land that will be lost under the North Sea should climate change not be effectively addressed, and who own rural businesses that will suffer the greatest effects of climate change from interruptions to supplies, and at the same time work to strengthen electricity supply networks, affecting their farming, woodland and tourism businesses (see Annex B for details).

Ofgem will be fully aware that the Government's Chief Scientist has described climate change as the greatest threat facing mankind, and the Stern report which urges that action taken to meet the challenge now is cost effective at 1% of GDP.

Our members want secure and sustainable economical supplies of electricity, but do not place the financial cost of electricity as the be all and end all of delivery against this objective.

We append at Annex A for your information a copy of the briefing we prepared last November on the question of Ofgem's role in Microgeneration and Renewables.

OBJECTIVES FOR DPCR5

The CLA suggests that Ofgem will not be delivering its Statutory Duty to have regard to sustainable development unless DPCR5 looks long and hard at the form of reward and regulation required to shift the electricity distribution business from its current position of meeting demand economically, to one where distributors are actively involved in demand management, and facilitating Microgeneration and Renewable connections.

This means that under DPCR5 the incentives that are offered for enabling sustainable energy need to exceed the profits from business as usual.

ROLES AND RESPONSIBILITIES OF ELECTRICITY DISTRIBUTION BUSINESSES

The CLA urges Ofgem to take the question of sustainable energy seriously. We regard smart metering (and in particular net metering) as a modest step that can help consumers take action to control their own electricity use and support Microgeneration.

We suggest that current incentives are far from adequate to deliver the outcomes required to address climate change.

Ofgem must rethink its form of regulation to enable distributors to become energy service companies, in parallel with electricity suppliers.

We agree that distribution companies should certainly assess their own carbon footprint, but go further in stating that they should be required to deliver the framework in which distributed electricity generation can flourish.

REDUCING EMPHASIS ON 5 YEAR ALLOWANCES

The CLA has had concerns that RPI-X has led to deskilling of distribution companies wayleaving departments, and to un-necessary conflicts between, for example, the management and maintenance of woodlands adjacent to electricity power lines and the security of the network. We have worked with National Grid and others but find in many cases their cash limits prevent them from taking longer term decisions on re-routing supplies which would better sustain the unique qualities of the British countryside.

We would welcome an approach to distribution costs that took more account of the professional and engineering costs of maintaining secure supplies with regard to the wider countryside, and the sustainable development of rural land management businesses.

In particular we echo the many correspondents who have emphasised the need for visual amenity to be an important part of the overall planning process for both new and existing power lines. We attach at Annex B a copy of a survey which clearly shows the public view of electricity pylons.

INCENTIVES – POTENTIAL SIMPLIFICATION AND SUSTAINABILITY

The CLA would welcome a simplification of incentives in concert with a new approach to regulation of the distribution network. We suggest that distribution companies be asked to come up with their own packages that will clearly show them contributing to a path which leads to the objectives set out in the Energy White Paper, including:

- An ongoing effort to facilitate reductions in energy usage by their customers
- substantial and sustained increase in the amount of connected distributed generation
- Investment in actively managed networks that enable the above
- Better regard to visual impact, amenity and land management.

PROCESS – BETTER ENGAGEMENT WITH CONSUMERS AND STAKEHOLDERS

The CLA welcomes the proposed move from the current deluge of hundreds of pages of engineering and licensing jargon to a more user friendly means of engagement.

We would wish to be involved in workshops during the roll-out of DPCR5.

VIEWS INVITED

We trust that this brief response sets out the views of the CLA in response to the price control review, and look forward to working with Ofgem as the work proceeds. For further information or to respond to the points made above, please contact oliver.harwood@cla.org.uk

Country Land and Business Association Limited
30 July 2007.

MICROGENERATION AND RENEWABLES: THE WORK OF OFGEM
BRIEFING FROM THE COUNTRY LAND AND BUSINESS ASSOCIATION
NOVEMBER 2006

BACKGROUND

The Country Land and Business Association (CLA) has taken a real and abiding interest in climate change, representing its 38,000 members. There is no doubt that rural communities and rural businesses (including but not limited to farming) will suffer significantly greater problems arising from the impact of climate change than others.

There is also no doubt that our members can help deliver action on both sequestration of carbon and delivery of renewable energy supplies which are not possible otherwise.

The CLA as a result is a key supporter of policies designed to deliver reduced climate change and a greater input from renewables, including renewable heat and low carbon CHP.

THE ISSUE

Whilst there are very significant gains to be made in the delivery of renewable heat, which as yet has not achieved the resource allocation that it deserves (the heat sector accounts for some 40% of our GHG), CLA is also concerned to drive forward the microgeneration of both heat and electricity.

Ofgem has this month published its detailed paper "Ofgem and Microgeneration: next steps" (ref 184/06, available on the Ofgem website at www.ofgem.org.uk).

CLA has major concerns with the thinking which underlies the paper and the associated work streams, in brief as follows:

- While the Government's Energy Review looks to the wide scale move to distributed generation, and calls for action to achieve this, Ofgem remains fixed on the view that new generators should pay for the costs involved in re-engineering the distribution system. In contrast, CLA regards this as a charge that should be shared between all consumers, as a necessary adjunct to the move to a more sustainable energy network.
- While Ofgem recognises that the current price review means that distribution operators lose income when consumers either reduce their demand or generate their own power, it does not propose to do anything about this large disincentive until the 2010 price review. The CLA regards this as unacceptable in the light of the energy review.
- Ofgem is content to await market development of microgeneration, and sees its role as limited to reducing barriers to new generation. The CLA regards this as weak. We suggest that were Ofgem to take its duty to sustainable development seriously, it would be working hard to build in incentives to distributed and microgeneration.

DETAILED COMMENTS

(The numbering in this section follows that of Ofgem's paper)

Introduction

- 1.3 Ofgem states it cannot be sure how soon and how fast microgeneration will make a major contribution to the energy market “we need to be ready when it occurs”.

CLA regards this as supine: Ofgem should do more to make sure the change comes about, not simply await delivery.

- 1.4 Ofgem states it is committed to addressing the remaining barriers to the installation and operation of microgeneration.

Whilst welcome, CLA argues that removing impediments is not the same thing as encouraging supply.

- 1.5 Ofgem states that energy suppliers “should now be well placed to improve the range of services that they offer consumers” and that “given clear customer demand” this might happen.

CLA agrees that, subject to the further changes to the licensing arrangement to allow long term contracts to be made, this may be correct, but sees little evidence of movement by suppliers to suggest that they are willing to drive change. Consumers are not going to demand microrenewables unless they are informed and incentivised to do so. Leaving carbon saving to the market will not work.

Improved and simplified regulatory arrangements for microgeneration

Where Ofgem states “microgeneration is generally exempt from charges for the use of the distribution and transmission systems, CLA notes that an Ofgem working party is currently considering whether National Grid charges for the use of the system should be applied to all generators (TADG working group). CLA is working with other organisations to defend the current exemptions from this attack, launched within Ofgem.

Joint DTI/OFGEM Review of Distributed Energy

The work leading to the proposed review is welcomed by CLA, but on careful reading there appears to be no explicit undertaking to review the disincentives for distributors who suffer losses in income when customers either save energy through energy efficiency investment, or reduce their demand through self generation and export of microgenerated power.

We regard this as the “elephant in the room”. Until it is recognised, moves to a sustainable energy system will necessarily be small scale and limited.

2. Helping consumers become generators

- 2.6 Ofgem expects “suppliers to build on their insights into customer needs and provide what they want”, relying solely on the information provision to be delivered under the Government’s microgeneration strategy to change consumer demand, and send the signals to the suppliers it regulates.

CLA regards this as simply inadequate. Reducing barriers does not amount to support for microgeneration. Sustainable development of energy supplies requires incentives to change behaviour, which Ofgem is failing to provide.

The supply licence review

- 2.10 Ofgem is “committed to ensuring regulation does not stand in the way of suppliers coming forward with arrangements based on providing energy services that meet their customers’ heating and lighting needs at least cost”

CLA regards this commitment as illustrative of the heart of the problem. “least cost”, while an admirable objective in terms of individual consumers, does not engage with sustainable development objectives, which must, in our opinion, have regard for greenhouse gas emissions reductions.

3. Distribution network issues

Ofgem’s states that its 2004 distribution price control “strengthened incentives on distribution companies to do what they can to encourage more microgeneration”

CLA members have seen no evidence that this has taken effect on the ground.

- 3.3 Ofgem recognises that “for larger microgeneration units or for multiple units at a given location, changes to the local network may be required to accommodate them. The normal processes for connection therefore apply and there may be a connection charge if the distribution company incurs costs”

CLA regards this policy as wholly misconceived. If the network requires changing to meet the needs of sustainable development, that is to say distributed generation and microgeneration to deliver on climate change objectives, who should pay? CLA regards the costs of reframing distribution networks as a proper charge on all those who benefit from the carbon savings achieved, rather than the consumer or business who is making the investment in delivering low carbon energy. Thus it should be met from distribution charges across the network, rather than low carbon generators.

Distribution network operator charging

- 3.5 Ofgem reports its current work on this topic covering medium size CHP plants and large renewable installations “will be implemented in a year or so”. It goes on to say that it “will then look to apply the same principles to all new generators, including microgenerators”.

CLA regards this as an unacceptably slow timescale, given the pressing need to start the UK on a downward path to lower emissions. If “a year or so” means no change before 2008, does this mean we will see no change for microgenerators until 2009 or

2010? This is a key issue, and tends to support our view that Ofgem does not accord a high enough priority to sustainable development.

- 3.6 Ofgem “wants to ensure that transparent, coordinated arrangements are in place to ensure that all generators, including microgenerators, can connect as easily as possible and that any benefits to network operators are maximised and shared with the generator concerned”. It goes on to say that “we need to consider these issues and determine appropriate incentive arrangements well ahead of discussing the next distribution price control to cover the period 2010-2015”.

CLA regards this as well meaning, but lacking urgency and drive. At the least Ofgem should, following the Energy Review, commit to an early review of price controls, preferably in 2007. As stated earlier, currently distribution companies lose money when consumers invest in energy saving and microgeneration, as they are rewarded for the amount of energy they distribute. This is not sustainable, and must be revised at the earliest opportunity.

- 3.7 Ofgem details the initiatives it introduced in 2004, covering incentives to distribution companies to connect new distributed generation and increase investment in innovation.

CLA notes that the current incentives are weak: they have not made a difference to members seeking to connect generation on the ground, and further that they are limited to a modest increase in yield on investment which helps connect renewables, which has not translated into changed circumstances for our members, and Registered Power Zones, in which innovations may be carried out. DNOs are limited to two RPZ applications per year for the first two years of the RPZ scheme.

3.9)

3.10) Quoted in full below:

“3.9. Where distributed generation helps reduce network costs, the normal operation of the price control incentives means that the distribution company should have an incentive to see more microgeneration connected to its system. However, where that generation does not export but instead offsets imports, this will reduce units distributed by the distribution company. This will have a negative impact on distributors' revenues as the amount of revenue they can raise from their customers depends to some extent on the amount of electricity they distribute.

3.10. The question of whether, in aggregate, the combined impact of these incentives (on costs and revenues respectively) is appropriate is something we believe we should further consider. It will be addressed in the next distribution price control to apply from 2010, in the context of consideration of removing or reducing further the extent to which the amount of units distributed affects distribution companies' income.”

These two paragraphs detail the dilemma Ofgem faces, described above, in seeking to square its desire to keep the system as cheap as possible for consumers, and the need to ensure microgeneration is facilitated. The CLA is deeply concerned that Ofgem has effectively ducked the issue by putting it off to the next distribution price review which does not arrive until 2010.

- 3.13 Ofgem says “there may therefore be benefits in looking at administratively simpler schemes more suited to the needs of potential householders minded to become microgenerators”

The CLA agrees that there may well be, and asks when Ofgem proposes to get around to the work necessary to put them in place?

CLA argues that were sustainable development truly to be at the heart of Ofgem’s work, such a scheme would be a high priority. Moreover, a sustainable development approach would, in our view, recognise that while there may well be costs associated with re-engineering electricity networks to meet the needs of a more sustainable energy system (preferably one which does not waste sufficient energy to heat all the homes in country for free, as is the case with the current large scale fossil fuel centralised generators), this is a cost which should be borne by all energy consumers, rather than those who are investing in carbon saving.

4. Metering

The CLA welcomes Ofgem’s proposals on metering, but agrees that (aside from the very real carbon reductions achieved by consumers who have been supplied with “smart meters”, and wondering whether this in itself is not a sufficient incentive to roll out smart metering on a wide scale) the real issue is the level of payment made for exported electricity generated from microgeneration.

5. Payments for microgeneration exports

- 5.1 Ofgem recognises that “this stands out as an issue arising from our 2005 consultation that remains to be resolved”

The CLA argues that were Ofgem properly taking account of its duties on sustainable development, the issue would have been resolved by now. Currently, it appears to have laid off its responsibilities by the methods set out in paragraph 5.8, set out in full below:

5.8. Many submissions to our 2005 consultation advocated a guaranteed prices regime, where suppliers or other parties would be required to buy exports from microgeneration plants at a fixed charge e.g. at the same rate as electricity supplied to the same premises. Ofgem does not consider that this kind of prescriptive solution is the best way forward. Suppliers should rather be given every encouragement to come forward with commercial solutions more solidly based on reflecting the real value of exports, rather than requiring them potentially to cross-subsidise export prices from their other operations. If suppliers do not take up the challenge, clearly, as government has made clear, there are other ways to move forward.

The CLA is deeply unhappy with Ofgem’s approach. Whilst we agree that effectively functioning markets offer the best approach in general, in the current case we face an overriding need to address non market costs arising from climate change.

If, as set out in the Energy Review, Government agrees that distributed generation is a key part of the answer, we suggest that more than “encouragement” is required to deliver the necessary changes in the rewards offered to investors in microgeneration.

CONCLUSIONS

Ofgem is a creature of statute, and must have regard, first and foremost to its principle objective, to protect the interests of consumers. This is met through promoting competition, and seeks by that means to secure the cheapest possible energy supplies.

The duty to have regard to “contribute to the achievement of sustainable development” comes a long way behind, and is not interpreted in policy in ways that might incentivise changes in behaviour, whether of the businesses it regulates, or the consumers it seeks to represent.

If Government cannot require Ofgem to address the questions we raise in this paper, and to undertake a sea change in attitude towards distributed energy and microgeneration, then we suggest that an Act of Parliament to make sustainable energy a core objective of Ofgem is required.

**COUNTRY LAND AND BUSINESS ASSOCIATION
16 BELGRAVE SQUARE
LONDON SW1X 8PQ
NOVEMBER 2006**

Electricity pylons are the single biggest factor adversely affecting visitor experience

WELSH TOURIST BOARD WIND FARM TOURISM REPORT OCTOBER 2003

Summary Table – Proportion of Respondents claiming that each facility/development DETRACTED from the experience (%)

Base: All respondents (N=266)

ALL VISITORS	
Electricity pylons and wires	48
Mobile telephone masts	37
Army firing ranges	31
Quarries	30
Planted, geometric forestry	28
Telephone wires and poles	25
Hydro-electric and other power stations	24
Wind farms and turbines	23
Hydro-electric dams/reservoirs	6
Fish farms	6
Fences, walls, hedges	4
Waymarking signs - on high ground	4
Funicular railways on mountain sides	4
Trails and tracks across open upland areas	4
Waymarking signs - on low ground	3
Planted forestry - mixed species, non-geometric	3