

Third DEWG meeting

Minutes from the third DE working group meeting.	From	Ijaz Rasool	24 September 2007
	Date and time of Meeting	10 September 2007	
	Location	Third DE Working Group meeting	
		Ofgem	

1. Attendees

Name	Organisation	Name	Organisation
Rita Wadey	BERR	Stephen Andrews	Lowerwatts
Stephen DeSouza	BERR	Robert Tudway	LDA
David Miller	CE Electric	Jody Pittaway	SSE
Claire Walsh	Centrica	John Costyn	OCC
Nigel Cornwall	Cornwall Energy	Prashant Vaze	OCC
Robert Buckley	Cornwall Energy	Philip Davies	Ofgem
Caroline Season	Defra	Rachel Fletcher	Ofgem
Ralph Chamberlain	E.ON	Vanja Munerati	Ofgem
Matthew Nunn	EDF Energy	John Kemp	Ofgem
Roger Barnard	EDF Energy	Ijaz Rasool	Ofgem
Richard Lee	Future Energy Yorkshire	Victoria Arr	Ofgem
Allan Jones	LCCA		
Terry Ballard	RWEnpower		

Apologies

Name	Organisation	Name	Organisation
Malcolm Taylor	AEP	Frank Malley	Scottish Power
Chris Welby	Good Energy	Katherine Marshall	SSE
Martin Alder	Opten	Mike Smith	Utilicom
Dave Sowden	Micropower Council		

Summary of discussion

Introduction session

- Rachel Fletcher introduced the group to its third meeting. She noted that a number of additional people had been invited along to the meeting, including John Costyn from the Office of Climate Change (OCC). Rachel also presented a slide showing the planned timeline and outputs from the working group.
- It was noted that Ofgem continued to meet with market participants to discuss their views with respect to the DE issues. However, whilst these meetings have been useful Ofgem remains reliant on the group for detailed information on the project economics of DE schemes. Working Group members were encouraged to provide this information to Ofgem, if necessary on a confidential basis.
- There were no comments or amendments to the minutes from the second working group meeting.

Office of climate change – heat project

- John Costyn gave a presentation on the heat project that the OCC is currently undertaking. One WG member questioned whether the OCC would be making any proposals with respect to changes to the electricity industry to ministers. JC responded

by noting that they had not ruled this option out. It was also noted that the proposals were in initial stages and required further development.

Session one

BERR - Exemptions process

- Rita Wadey (BERR) gave a short presentation on the exemption process. The presentation asked for comments/views on a number of areas of the exemption process, including experience of using the exemption order by WG members.
- One WG member suggested that the original intention of the exemption order should be set out clearly. Another WG member noted that there was considerable confusion with respect to what exemption limits apply to particular projects; with conflicting advice received from different government officials. RW responded that this needed to be improved, particularly in light of the Better Regulation programme.

EDF – the Exemption Order 2001

- It was suggested that Domestic distribution and domestic supply should have a new common exemption limit of 2.5MW and exempt suppliers should be able to use either public or private wires, with new limits operating by site not legal entity.
- EDF stated they would like to commit to exempt licence activities. It was noted that making it easier for the larger utilities to participate could stimulate take-up of DE, as larger players would not face difficulties in financing DE schemes.
- EDF reminded the group that it is possible to attach conditions to exemptions.

LCCA – Distributed Energy

- LCCA provided a presentation that outlined a number of suggested changes to the current arrangements to encourage the take-up of DE schemes. It was suggested that a class exemption should be introduced to allow the supply/distribution to domestic customers of 5MW per site. It was also proposed that schemes of over 5MW(e) to 100MW(e) should be licensed, but exempt from the requirement to sign up to the BSC, MRA and other relevant industry codes.
- LCCA also presented a paper produced by Campbell Carr Limited for LCCA that compared the costs of operating on-site/private wire distributed energy systems on both a licenced and licence exempt basis. RT noted that the line loss factor figure presented in the paper represented the very top end of the scale and further analysis was likely to revise this figure downward.
- A WG member commented that avoided costs of being licence exempt would vary from scheme to scheme and questioned whether the costs that are avoided are justifiably avoided. It was also note that there must be a good reason why each of the costs identified should be excluded, for instance, specific costs could be excluded on the grounds that it is government policy to encourage DE schemes or on the basis that it is economically rational to do so. It was also noted that some of the costs of being licensed can be avoided or reduced if the supplier uses an agent.
- LCCA stated that they considered DE does not fit within the existing electricity market structure and hence it should be treated as a separate market. A WG member responded by stating that the changes required to introduce a new class of licence and make significant alterations to the structure of the market arrangements would require significant lead times and are also likely to require a referral to the Competition Commission.

- It was stated that the LCCA proposals for middle and larger schemes would effectively remove around 60% of the supply licence requirements. A concern was expressed that if a significant numbers of these schemes were set up then this could mean that the costs of the system will be borne by an, increasingly, smaller number of licenced market participants.
- A WG member noted that customers could be protected under either a new licence regime or higher exemption limits. It was also noted that arrangements/modifications could be put in place for particular parties, such as DE schemes, where it is demonstrated that these parties impose lower system costs.

Session two

Cornwall Consulting – Introducing flexibility in routes to market for DE

- A number of points were made during this presentation and subsequent discussion. These are summarised below:
 - Certain parties may impose less costs on the system but there is not an absolute size threshold – it also depends where the generator is located and the impact on the GPS
 - Regional solutions are preferred.
 - Placing an obligation on suppliers could be one mechanism for encouraging DE. A WG member noted that increasing exemption limits doesn't help DE if the schemes still cannot get exempt supply services from suppliers
 - It is currently difficult to work out what the embedded benefits actually are and for DE to obtain embedded benefits without being pulled into central trading arrangements. This may need to be the focus of a future industry working group
 - Consistency in the current arrangements would help to encourage the take-up of DE, e.g. DNO charging

CE Electric UK – Virtual private networks

- Dave Miller provided a verbal outline of his paper. It was suggested that a significant amount can be done in within the current arrangements to assist DE and that the private wires model could be replicated on a public network. It was stated that the VPN approach would still leave ESCO's to balance demand and supply and would make multi site and retrofit issues much easier to resolve.
- It was suggested that the ability to operate in an island mode was valuable to some parties and that asset ownership was also desirable.
- Concern was expressed as to whether VPNs would provide DE schemes with embedded benefits. It was stated that it would. Concern was also expressed regarding the TADG workstream, specifically the possibility that a gross rather than net approach could be adopted.

Closing session

- It was agreed that whilst some measures could be introduced by the end of 2008, or earlier, other, more complex solutions, may take longer to implement.
- All the presentations presented by the various speakers at the meeting can be found on the Ofgem website.

Arrangements for the next meeting

- Ofgem intends to review the presentations and papers presented at the third WG meeting and will develop possible measures which will be presented at the next WG meeting, providing WG members with an opportunity to comment on these proposals.

Actions

- 1. Send any comments on the presentations and papers presented at the meeting to Rachel Fletcher by 5 October**
- 2. Send details of other DE schemes to Rachel Fletcher by 5 October**

Date of next meeting

- The next meeting will be held at Ofgem from 2pm to 5pm on 16 October 2007.