

Attachment 1: Responses to questions raised in the consultation

Chapter 2 – Background and Discussion on Exemption Limits

Question 1: If the exemption limits for supply and distribution to domestic customers were to be raised, what measures would be required to ensure ongoing and effective protection of energy customers, and how would this be enforced or monitored?

The Regulatory Impact Assessment that accompanied Statutory Instrument 3270 2001, indicated that the policy objective at the time was to relax the rules so as to allow more operators of small power stations, in particular those based on CHP and renewables to generate and supply electricity without being subject to the licensing regimes. At the same time it established a regime for distribution licence exemption for those who distribute small volumes of electricity from on-site generating plant to both commercial and community schemes. The RIA noted that the exemption levels were set so as to balance the need to protect the security of the total system for generation and transmission of electricity.

We agree that the Order was not designed for larger community projects that are now envisaged as part of the anticipated growth in distributed energy. However, we do not favour raising the exemption limits that are embodied in the Class Exemption Order unless it can be demonstrated that there remains adequate protection for the customer and the security of total system.

We agree with the Ofgem conclusion that the current retail markets are competitive and that the ability to switch supplier is an important element of this market. The RIA for SI 3270 noted that domestic consumers on private networks would not have access to the competitive market and consequently, conditions were attached to the exemptions regarding maximum resale price and the requirement to notify customers of the effects of the exempt status of their supplier.

If the exemption limits were to be raised, these conditions should be reinforced to enable Ofgem to be able to require information from exempt parties and also allow energywatch and it's successors to respond to complaints about their performance and provide redress, in accordance with the envisaged consumer representation framework. It is also for consideration whether such conditions should extend to providing 'vulnerable' customers to the same level of protection as customers supplied by licensed suppliers.

Question 2: Should the existing per company maximum exemption limit be removed allowing one company to develop a number of different sites?

Larger supply companies can make a significant contribution to the development of distributed energy. It may be useful to introduce flexibility in the exemption limit to allow the development of a number of different sites. An example could be to apply limits on a site basis rather than a company basis. Care would need to be taken however to avoid creating perverse incentives.

Question 3: We welcome evidence on the size of DE scheme that would be considered economic and efficient in different settings if exemption limits should be across generation, supply and distribution.

We would also welcome greater visibility of the economic case for DE particularly community based schemes. The economic case should take into account the costs of the provision of reserve and other back up costs that may be incurred when such schemes are connected to the national system.

Question 4: We welcome views on the 2001 Class Exemption Order, and areas where there could be more clarity in particular.

As noted in our response to question 1, the policy objective at the time the 2001 Class Exemption Order was designed to relax the rules to allow more operators of small power stations, in particular those based on CHP and renewables to generate and supply electricity without being subject to the licensing regimes.

We have been concerned since the introduction of NETA at the ambiguities and uncertainties that surround the interpretation of the conditions for justifying supply licence exemption for on-site supplies. It would appear that the various categories of consumer listed under paragraph C2 of Schedule 4 of the Order represent specific sets of circumstances that have emerged at some time and are therefore exemplars of on-site supplies. It would be better if the Schedule could first articulate the principles on which a supply will be judged to be “on-site” before dealing with any specific examples. This would provide a basis for a prospective operator of a generating unit to judge whether the circumstances specific to it could appropriately be described as an on-site supply. Clarification of this aspect of the Licence Exemption Order would greatly assist the development of economic CHP.

We agree with the sentiment in the consultation paper that the definition of an on-site supply should rest with the physical movement of energy and not be circumscribed by contractual arrangements that may be required for participation in BETTA, or the transfer of LECs in accordance with the provisions of the Finance Act. Construing a supply in this manner would also align with the definition of Supply in the Electricity Act. It would be helpful in removing any potential ambiguities that arise from these arrangements to state this principle in the opening interpretation section of the Order.

If this approach were adopted then the definition of what constitutes a “site” might be aligned with the definition of a trading unit in Appendix K-2 of the Balancing and Settlement Code (BSC), which in turn leans on the definition of a site in paragraph 1.6.2 of section “K” of the BSC. The resolution of electrical flows would then be capable of measurement from settlement metering that was provided in accordance with the provisions of the BSC.

An on-site supply could then be demonstrated to have occurred by reference to the relevant metering of the customer consumption, generator output and boundary metering in any settlement period that is required by the BSC.

In the event that there remained any uncertainty as to whether an on-site supply had occurred, for example in a circumstance where two generators occupied the same site where some of the output had been consumed on site and some exported to the wider system, then the contractual arrangements may be used to clarify which generator was responsible for the on-site supply and which for the export. Such an approach should not preclude the primacy of the physical flows in defining an on-site supply.

Chapter 3 – Wholesale Market Trading

Question 4: Do you consider it appropriate to use the provisions of the BSC to increase the representation in BSC governance processes?

We do not support the proposal to appoint a DE representative to the BSC Panel.

The consultation rightly states that there is no requirement for licence exempt generators to become signatories to the BSC. It is incorrect however to conclude that they do not have the power to propose code modifications.

Section F 2.1.1 of the BSC Code states that:

‘A proposal to modify the Code may be made by any of the following:

Such other bodies representative of interested third parties as may be designated in writing for the purpose by the Authority from time to time’

This makes it possible for any third party to propose changes to the Code. We are confident that Ofgem would support such a request to raise a modification.

The BSC Panel has operated successfully since the inception of NETA. Panel members are required to act independently and the voting arrangements of ‘one party, one vote’ were designed to ensure that the Panel would not be dominated by larger companies, which has been amply demonstrated.

Whilst the Code does allow the Panel Chairman to appoint an additional member to represent DE interests, Section B2.6.1 (b) states that this can only be done where ‘those interests are not reflected in the composition of Panel Members for the time being appointed’. We believe that there is already sufficient knowledge and experience within the Panel to adequately ‘represent’ DE interests.

Finally, the BSC empowers the Panel to make recommendations on any modifications to Ofgem in accordance with the BSC objectives, which are tightly defined. Ofgem thus ultimately decides under its wider statutory duties whether a modification is implemented.

Question 5: Do you consider that there is a case for allocating funding for DE representation in BSC governance? If so, do you have views on where the funding should come from?

As noted in our answer to the previous question, we do not consider it is appropriate to use the provisions of the BSC to increase the representation of DE on the BSC Panel. We therefore do not consider that there is a case for allocating funding for DE representation.

Question 6: Have we considered all the options to address the risk DE schemes are exposed to if trading in the wholesale markets? We welcome any other proposals to accommodate the needs of DE schemes selling their electricity in this way.

Ofgem's view appears to be that the current cash out arrangements are intended to ensure that the costs incurred by the system operator in balancing the system on behalf of market participants are appropriately targeted at those who are out of balance. While we note Ofgem's concern with the possible influence of 'system' actions on cash out prices, we do not believe that any issues with the current cash out arrangements have been identified that are related exclusively to distributed energy schemes. Current modification proposals (P211, P212 or P217) may address system actions, while the current cash out issue group (Issue 30) will consider, among other things, the price spread and its impact on BSC Parties.

We support the principle that those who impose costs on the system should bear them. We believe that it is appropriate that projects with unpredictable or intermittent exports onto the GB electricity system are exposed to the risk associated with energy imbalance in the same way that any other party is exposed to this risk. Creating 'special arrangements' for distributed energy schemes will carry the risk of market distortions and result in uneconomic and inefficient outcomes. All investment in generation implies a degree of risk and it is misleading to give the impression that these risks can be removed without imposing a cost elsewhere in the supply chain. It is also not likely to be in the interests of consumers to select particular sectors of the market, such as distributed energy where risks should be abated.

We note Ofgem intend to continue the cash out review 'mindful of the issues associated with small intermittent generators'. We would welcome clarification of Ofgem's thinking in this area, specifically the terms of reference for the on-going review, the expected outcome, the timescales and the interaction with initiatives elsewhere under the BSC. This would help to remove some of the uncertainty in the current market arrangements.

Chapter 4 – Selling to Third Parties

Question 7: Do you consider that third party purchases undervalue exports from DE schemes? We would welcome information from both generators and purchasers on prices that have been agreed for electricity from small generators. If necessary, this information can be provided in confidence.

We do not believe that market evidence supports the view that third party purchasers undervalue exports from DE schemes. For example:

The demand from customers for "renewable" and "low carbon" energy is increasing. This has been recognised in the current "Cutting the green customer confusion" consultation to which npower has responded. Npower has been active in the DE market since the commencement of NETA and has noticed an increase in competition for DE output and has responded by developing innovative products to source this power.

30% of the DE renewable energy market is priced and contracted under the NFPA auctions. Contrary to the comment in the consultation, we believe that the primary driver is not ROCs but the demand for renewable energy to supply to customers.

It is important to take a holistic view of the valuation of a PPA and the revenues available to the generator. For example a portion of the margin made by suppliers may be taken as a sharing of achieved embedded benefits. If a generator is given a greater share of embedded benefits, this may lead to a lower base power price. Alternatively it may be that the power price is reduced due to a lower margin on the ROC or LEC element of the contract.

Ofgem correctly identify the primary drivers behind the pricing of embedded generation. It is our view that the predictability of generation or more accurately the resulting imbalance costs, as a result of the variable generation, is the main risk in purchasing embedded generation.

For a simple fixed price power purchase arrangement npower's pricing policy can be summed up as:

Wholesale forward curve – (risk premium for imbalance - aggregation benefit) + embedded benefits – costs to serve & margin

The calculation of the risk premium is reduced by the aggregation benefit (portfolio benefit). Where a generator is willing to accept some of the imbalance risk (e.g. by guaranteeing to deliver within certain tolerances) this premium would also be reduced. However it is clear there is little appetite for the sharing of imbalance risk in the DE field. This leads to the supplier absorbing the risk and as a result the price paid to the generator is reduced. In this respect we find that some times the valuation of the generator (prior to conversations with a supplier) may be unrealistic. For example they may have failed to account for the imbalance premium when reviewing reported wholesale market prices.

Question 8: We would welcome your views on whether there is a lack of competition in the market for small generator output?

We do not believe that there is a lack of competition in the market for small generator output.

It is noted in the consultation document that following the implementation of NETA a number of consolidators entered the market. These included Enron, Dynergy, Yorkshire Energy and Smartest Energy in addition to the larger suppliers and generators. It is further noted that since this date, the number of independent, third party, providers remaining have fallen to one. It would be wrong however to conclude that this is necessarily as a result of the role of the independent consolidator being uneconomic. Yorkshire Electricity's supply business became part of the npower group of companies whereas the withdrawals of Enron and Dynergy from the UK energy market are well documented. The demand for consolidation services over the past few years, given the relatively low number of operational distributed energy schemes, may not have warranted additional consolidators. Should a greater number of DE schemes materialise over the next few years, we are confident that the market will respond accordingly, leading to a greater number of companies being prepared to offer services.

Npower participates in a large number of DE tenders each year. In the majority of tenders we find ourselves competing against many of the other large suppliers,

Smartest Energy (as a consolidator) and also at times, niche suppliers (e.g. Green Energy etc).

The market has also developed an electronic ROC (EROC) auction which is held quarterly and attracts the interest of a number of counterparties. NFPAS Ltd also offers the functionality for the auctioning of non-NFFO contracts. There appears to be little take up of this to date although we note some contracts in the February 2008 auction. From this we conclude that existing DE generators find enough options available without resorting to an auction.

It has been suggested that a number of new generators find it difficult to contact parties willing to offer services to DE. In response to this, Npower have set up a dedicated page on its Internet site:

http://www.npower.com/web/In_business/Flexible_energy_solutions/Embeddedgeneration/index.htm

A telephone contact number is also provided.

In response to the level of competition in the DE field npower has developed a sophisticated range of products. Npower's product suite has developed to include the following:

- Fixed price power (npower take all imbalance risk; or tolerance band whereby generator take some of imbalance risk outside given volume tolerance)
- SSP pass through
- Trading Services (Route to Market)
- Index linked power
- Flex Selling (the ability to have multiple decision points for clips of power)
- Embedded benefits (D&T Losses, BSUoS, RCRC & Triad):
- Fixed price
- % sharing of actual received
- LECs: % sharing of CCL
- ROCs:
- Fixed price
- ROC monetising (variable price)
- We also previously provided 'Sell & Buy back' agreements for generators to access "onsite" ROCs

In addition we actively participate in the NFPA and EROC auctions.

Npower does acknowledge two areas where there has been limited appetite in the past.

- The nature of the power markets has meant that there has been a limited appetite for longer-term contracts of beyond five years. This has been compounded by the regulatory risk surrounding, for example, the RO, which has also constrained the market to some extent. However npower is now in discussions with generators regarding longer-term agreements and see increasing activity in this area. Again this market development is in response to customers who are now more willing to offset some of the

risk faced by the supplier by contracting to purchase such electricity on correspondingly long term contracts.

- Npower will not necessarily offer its full range of products to the smaller end of the market (50 – 100kW). It would not be economic in view of the work involved e.g. to offer Trading Services (route to the wholesale market) for spot trading for such small generators in competition with niche suppliers. However npower will, in almost all situations, offer as a minimum a spill price purchase contract with embedded benefit sharing. Npower continues to monitor its performance in this area and will bring products to market where it feels it is economic to do so. Of course domestic micro-generators benefit from our published export tariffs.

Question 9: Have we considered all the reasons for the lack of development of consolidation services in the market? We welcome views on whether future changes to the market rules may be warranted to remove any barriers to entry that continue to exist for consolidators.

As we noted in our response to question 8, we believe that the consolidation market is healthy albeit with services mainly provided by the larger supply companies

It may be that currently consolidators can not offer sufficient added value services to justify the additional cost to the generator of having the consolidator as intermediary between them and the supplier.

The consultation document suggests that consolidators should offer access to prompt markets. Our experience is that the interest in Trading Services (a route to the wholesale market including Spot prices etc) has been disappointing. We doubt that any significant demand for such services currently exists.

The reasons for the exit of other parties who offered consolidation services have been noted in our response to question 8. Should the demand for consolidation services increase, we are confident that the market will respond accordingly, leading to a greater number of consolidation products if these are appropriate.

Question 10: Do you think there is a case for a specialist Energy Trader? What are your views on the scope and functions the specialist agency could perform as an interface between DE generators and the current trading arrangements?

We do not believe that there is a case for a specialist Energy Trader as the market already provides these functions.

As discussed above in the answer to Question 9 the full or partial consolidation roles are already catered for both via licensed suppliers and the existing consolidator. Additional consolidators will no doubt appear to supplement the existing one should the market require this additional functionality.

The facilitation role of the Energy Trader is already provided for in the form of energy brokers. Npower already receives tenders from various different brokers and consultants (e.g. Utiyx, Guardian Energy, Encore International, Tradelink Solutions etc). These provide the specialist expertise that generators can draw on in the contracting process.

The smaller end of the market may not yet be that well served in this respect but we have observed that some companies have started to move into this sector of the market and provide these services.

Question 11: An Energy Trader option could be implemented by allowing the market to deliver, placing an obligation on suppliers or by tendering for the role. We welcome views on these suggested routes and any others we have not considered in this consultation document.

As noted above, we do not believe that a dedicated Energy Trader for DE should be mandated. The establishment of a provider for such services who charged regulated prices would inevitably distort all provision on a competitive basis. Whatever care was taken in this area, there would be a strong likelihood that an administered price would be at the wrong level at any point in time. We firmly believe that it is for the market to develop and deliver this role.

It is unclear how placing an obligation on suppliers to provide services under Option 2 would work in practice. This type of obligation has, in the past, been placed on holders of PES supply licences at the time when it was felt necessary to protect customers within the franchised areas. The concept of a franchised area is now obsolete with suppliers competing nationally.

Question 12: Do you have any views on how the understanding and forecasting capability for DE technology could be improved?

An advantage of the current market arrangements is that it rewards reliability and accurate forecasting against a backdrop that the value of generation output varies over time. The capability to better forecast will increase the longer that the market is left to work without intervention and participating companies increase their experience.

It should be noted that we provide several different services to distributed energy schemes.

Question 13: What are your views on the implementation of a dedicated wholesale market for DE?

There is and can only be one homogenous market for electricity. In the wider context of market structures indicated under Option 4, we believe that the current wholesale market arrangements are an appropriate means for managing the output from distributed energy schemes. It is not clear that the proposals to create a 'balancing market' outside the current energy market are required. We believe that any such proposal would require major reform of the current trading arrangements.

Question 14: Have we considered all the options to address the lack of competition in the market for small generator output?

We continue to doubt that there is any lack of competition in the market for small generator output. Indeed the DE case studies contained in Appendix 10 indicate that

contract offers are available from a number of sources. The case studies tend to point to the planning regime, the difficulty of predicting future revenue streams in a market environment and interaction with the distribution network as being the major obstacles.

It is important that information is provided to smaller generators to help them understand the market for DE. Some of the information is available on the Ofgem website but the location (i.e. ease of access) and simplicity of the information may need reviewing.

For smaller generators there may be some room in the market for “tariff like” structures with simpler terms and conditions similar to that which is provided for domestic customers who export power. However in this instance the generator must accept that prices will need to reflect the risks they impose on suppliers. The product and market development that have occurred to date have determined for suppliers (major and niche) the products that are required. We do not believe that it would be appropriate for Ofgem to oblige each supplier to offer certain products and arrangements for which there is no obvious demand.

Chapter 5 – Operating as an Exempt Supplier on the Licensed Distribution Network

Question 16: DE schemes face a trade-off between carrying the cost and ongoing maintenance of a private wire network linking their sites and the direct and indirect costs of using the licensed distribution network. We are keen to better understand circumstances that lead a scheme to favour the private wire option and how incentives vary depending on the distance of the second (or multiple) sites?

Our response to the Call for Evidence noted that it is not clear that private networks are required to facilitate the introduction of DG. Although some early schemes saw access to the local distribution network as a barrier, commercial arrangements with host DNOs have subsequently alleviated the problem. The option to amend the licensing arrangements should be maintained against the possibility that a future barrier is identified.

Question 17: Is there adequate availability of Exempt Supplier Services in the market place? If demand for such services is likely to increase with expected development of DE, we welcome views on whether the market will respond appropriately or whether intervention is required to ensure availability of these services.

We agree that the obligations associated with codes and agreements contained in Supply Licence Condition 11 could be backed off through contractual arrangements with larger suppliers. We believe that there is no case for formalising this arrangement unless there is firm evidence that the market has failed to deliver these services. There would need to be a clear definition of the services involved and in any case, any provision should reflect the full costs and risks of providing them.

As we noted above in regard to consolidation services, if there is sufficient demand for the provision of services, the market will deliver them. If the Agency model is mandated, it will stifle any innovation that the market would be likely to deliver.

Question 18: We welcome views on whether an Exempt Supplier Services obligation (similar to the former Standard Condition 53) should be imposed on all suppliers and whether any specific additional requirements are now necessary.

Ofgem's Supply Licence Review (SLR) was considered a landmark piece of work and demonstrated its commitment to the Government's principles of better regulation. As noted, no demand for an obligation to provide exempt supply services was expressed during the lengthy SLR consultation process. There is also uncertainty over whether the demand for such services is likely to increase. These services are available on a commercial basis and there does not appear to be firm evidence that suppliers have not been forthcoming when requested. In the circumstances and at this time, the introduction of an Exempt Supplier Services obligation (some 6 months after the removal of Standard Condition 53), would seem to be disproportionate and a retrograde step.

It is also unclear how the placing of an obligation on suppliers to provide such services would work in practice. As noted in our response to question 11, this type of obligation has in the past, been placed on holders of PES supply licences at the time when it was felt necessary to protect small suppliers within franchised areas. The concept of a franchised area is now obsolete with suppliers competing nationally.

Question 19: We welcome views on the feasibility of Exempt Supplier Services being provided at system cost – i.e. merely the costs incurred by suppliers from third parties in registering meters, using the network, etc. Are there ways of integrating with supply systems such that Exempt Suppliers do not create any overhead on Supplier operations?

The provision of services at system cost would be a more onerous obligation than the former Standard Condition 53. This allowed charges to be set at a level that reflected the costs directly incurred, together with a reasonable rate of return on the capital represented by such costs. This latest proposal would not seem to accord with the principles of better regulation.

Question 20: Is there a case for DE representation at the Energy Network Association working group examining the technical standards for connection? If so, do you have views on how representation might be funded?

If the ENA is to remain the custodian of the Engineering Recommendations, it is important that DE has a voice at the working group examining the technical standards for connection. It may be that a better governance model would be for these to be brought under the auspices of the Distribution Code Panel. Without knowing the level of costs likely to be involved, it is difficult to comment on how this might be funded but we would generally expect such costs to be picked up by the monopoly licence holders.

Question 21: We welcome examples of where technical standards may be unduly onerous and discourage connection to the network for small generators.

We understand that there have been a number of appeals on technical standards to Ofgem and that this has clarified a number of the standards.

Question 22: We welcome views on the proposed options to improve the accessibility of the licensed network to DE schemes, and whether there are any other relevant options we have not considered.

We do not have any specific views but would expect that any arrangements would not disadvantage the greater number of customers connected in the traditional manner to the DNO's network.

Chapter 6 Becoming a Licensed Supplier

Question 23: What are the costs of start up for small suppliers? What is the break even point for small suppliers?

We agree that there is a step change in the costs between being an unlicensed supplier and licensed supplier. This can be an issue for smaller suppliers who cross the exemption threshold as a number of fixed costs have to be recovered from a relatively small number of customers. However this reflects the additional responsibilities and obligations associated with becoming a larger market participant.

We note that Ofgem have identified that the Renewables Obligation forms a significant proportion of the additional costs incurred by a licensed supplier. It is appropriate that if the DE scheme relies on generation from a non-renewable source, it should face the same additional costs as would any other supplier. If, on the other hand, the DE scheme is based on renewable generation (the concept of low carbon energy itself is not rewarded under the RO), it will benefit from the receipt of ROCs, which will offset its supplier obligation.

Renewable DE generation has the potential to become even more attractive if the RO banding proposals within the Energy Bill become law. Similarly, any proposals to introduce a Renewable Heat Obligation may benefit efficient DE schemes as it will reward one of DE's major benefits of making more efficient use of input fuel.

The consultation document suggests that a large proportion of DE schemes will arise from the requirement placed on developers to ensure that a proportion of new development comes from decentralised or renewable generation. This does not however lead to the conclusion that this will result in a multitude of independent developers. A more rational approach may be for developers to issue tenders for the supply of these services from larger developers, specialist contractors or existing suppliers in the same way as they would sub-contract for other specialist services. This approach would remove much of the regulatory burden of providing DE solutions.

Question 24: Do the economics of CHP justify additional investment over and above that of a boiler base system? What are the contexts where CHP might be chosen over heat-only schemes?

We believe that the additional investment is often justifiable. CHP currently generates 7% of UK electricity and in the October 2007 DEFRA report on UK CHP potential, over 16GWe of economic potential is identified in 2016 (current capacity is just 5.5GWe – DUKES 2006). Over 20% of this additional potential is with refineries and LNG, with nearly 65% in low/medium temperature industries (e.g. chemicals, paper, food and textiles). High efficiency co-generation plants by definition save at least 10% of primary energy inputs, bringing fuel cost savings and reducing carbon footprints. The economics of CHP and its role in energy efficiency have been extensively analysed and debated over the last ten years resulting in the EU Cogeneration Directive, the UK CHPQA program and the UK CHP target. The principle adopted in the UK program is that every heat only boiler is technically a missed opportunity for good quality CHP and its attendant primary energy savings.

Barriers to the development of such schemes however may include the following: investment priorities/ payback periods, level of required CAPEX (higher than for heat only plants), market price volatility (gas, power and carbon), legislative developments and regulatory uncertainty with regards to support mechanisms and carbon market rules. One example is the continuing uncertainty over the future of CCL and the associated exemptions for CHP. It is also important that distributed CHP is properly credited with the savings in network costs that result from reduced electrical losses and the avoidance of future network capital expenditure.

A requirement for CHP schemes is a stable base heat load demand, which may be a particular issue with regards district heating schemes. District heating schemes as for all CHP, also require a long term commitment from users to be economic. CHP based district heating again requires that a reasonable degree of certainty can be ascribed to the heat demand from the investment. This requires a contractual framework of long term commitments from users that has not fitted well in the past with the ready availability of gas as an alternative source of heat. High heat densities are also essential for DH schemes to be economic which restricts the technology to specific forms of residential development. Nonetheless future housing policies and local authority development plans may produce resurgence in the prospects for CHP DH especially if local authority tax regimes are favourably construed.

Question 25: Is there a case for granting a limited number of supply licences to new entrant DE schemes that restrict customers switching to an alternative supplier for a period of say 5 years?

Notwithstanding any UK and European legal issues raised within the consultation document, we believe that the greater priority is to get the basics right. For example the establishment of a robust carbon price will lead to the benefits of DE becoming apparent.

However, if the approach suggested were adopted, the definition of 'new entrant DE scheme' should not exclude existing market participants. If a limited number of licences were to be granted it should follow some form of tender process to ensure that the most appropriate schemes proceed. Part of the condition of granting such licences should be that there is full disclosure of the costs and benefits, both financial and in terms of carbon saving of the individual schemes to inform both the wider community and Government's climate change commitments. On this basis these schemes could be ring-fenced from the existing trading arrangements and if required, overtly subsidised without introducing distortions in the wider market.

It should be noted that with the removal of the '28 day rule', the existing supply licences provide for fixed term contracts, subject to reasonable notice periods and termination fees, in accordance with general consumer law.

Question 26: We welcome views on what types of advice and information would usefully help DE schemes start-up and interact with the wider electricity system, and who should provide this?

We do not believe that there is an information barrier faced by DE operators who wish to set up and operate their schemes. Information regarding participation in the market is readily available from Ofgem, Elexon and the network operators. In addition there are many consultants within the energy sector who are well versed in the requirements for market entry.

We support the proposal to review the BSC and MRA to determine whether there are any disproportionate or unfair costs being levied on DE. We have consistently stated that we support the removal of barriers to the growth of distributed generation that prevents it competing with other technologies on an equitable and transparent basis.

Question 27: Do you consider that there is a case for a new DE supply licence? If so, do you have views on the key terms? Please explain your reasoning in detail.

We remain unconvinced that a new distribution energy licence is required and note the UK and EU legal issues that this may raise.

Question 28: We welcome views on the proposed options for reducing the costs of becoming a licensed supplier and any other options that we have not considered in this consultation document.

No further comments.