

Centrica welcomes the opportunity to comment on the Ofgem/Berr consultation on initial proposals for More Flexible Market and Licensing Arrangements for distributed generation.

As a general principle, Centrica considers that entry into selling electricity from the DE market should be on an equal, fair and transparent basis. Specific comments on the consultation questions follows.

Chapter Two

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

Centrica believes that some specific areas of the 2001 Class Exemption Order would benefit from improved clarity of drafting. As an example, we note that between paragraph 3 (1) and other sections, it is unclear whether a person can benefit from more than one type of exemption.

Chapter Three

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

In our view, a dedicated DE appointment to the BSC Panel would have limited value. As a general principle, if companies are affected by BSC changes, they should become a party to it in the usual way in order to manage the risks and engage appropriately with the governance processes. We note that there are currently Panel members affiliated to DE interests, as well as third parties, for example offtake buyers and consolidators including *Smartest*, who engage with the processes, pay BSC charges, and represent a DE view within the existing process and governance structure.

In terms of the settlement processes, we do not believe that DE companies should operate under less stringent rules than other BSC parties.

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?*

Building on our response to Question 4, we believe that any cross-subsidy from BSC Parties to non-BSC parties would be inappropriate.

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.*

We note that for the most part, DE schemes contract out their output to a third party consolidator or supplier, and believe that any imbalance risk can be managed in this way with the addition of a guaranteed route to market. We don't consider that any further proposals are necessary.

Chapter Four

Question 7: *Do you consider that third party purchasers 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, the information can be provided in confidence.*

Centrica does not believe that export from DE schemes is currently undervalued. Our own valuation of any export is without regard to whether the source is DE and is rather based on the predictability of the outputs with other supply.

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

Given the PPA pricing that appears to be prevalent, Centrica does not believe there is a lack of competition in the market for small generator output.

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

Consolidation services do exist in the marketplace and have managed to run a successful business model within the existing governance and market structures. We do not agree that there are barriers to entry for consolidation, nor have we seen evidence that DE generators are struggling to sell their energy through such services.

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?*

Centrica considers that the consolidator market is competitive and that a specialist Energy Trader is unnecessary. If Ofgem wishes to explore this concept further, we believe that more detail on how this would work in practice should be provided with an analysis of why this would improve on existing supplier options. In addition, we believe that a full impact assessment would be required, which would need to include clear, quantitative analysis of the relative costs and benefits. It would also be essential to specify, in advance, how the costs of such a service would be met, and by whom.

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.*

Building on our response to Question 10, Centrica does not support a DE obligation on suppliers. If there is a market for these services, we believe that the market will deliver and should be allowed to do so. Whilst tendering may be another route, we would find it difficult to support placing this type of obligation on suppliers generally as this would potentially lead to non competitive provision of such services.

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

Centrica believes that DE generators with less predictable, or more variable output, should consider using third party forecasting services to assist in the provision of a forecast to the supplier. They could also consider provision of SCADA/OMS data feeds to the supplier to help reduce the imbalance costs.

Improving the forecasting for DE operators needs to happen in parallel with a review of the cash-out regime so inappropriate or inaccurate forecasting does not skew the market for small volumes.

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

If a dedicated wholesale market for DE were to operate in a similar way to the NFPA for renewables, and is quantifiably predicted to assist the delivery of DE export to the market, then this proposal may have merit. We would like to see more detail on how it would work in practice, and an analysis as to why this would be a better route to market for DE generators than the current arrangements. We believe there should be a full impact assessment, a quantitative analysis and a cost benefit impact assessment.

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

Centrica does not believe that there is a lack of competition in the market for small generator output, and considers that this output receives an appropriate value for its output. We do not believe it is Ofgem's role to act as a negotiating agent for DE output.

Chapter Five

Centrica shares Ofgem's disappointment with the progress made on changes to the longer term electricity distribution charging methodologies, and believes that the approach taken by distributors is increasingly uncoordinated and confusing.

In our opinion, some of the proposals to date attempt to cover too wide an area rather than focussing on the key objectives set out by Ofgem. As a result, many of the generation issues are not properly addressed in a clear and consistent manner. At the same time, a multiplicity of changes have been proposed with inconsistent and possibly unintended consequences.

Whilst it is tempting to pressure the distributors to come up with a single solution to all the potential issues within charging methodologies, we do not believe this approach will be effective. We consider that better prioritisation is preferable to demanding more urgency from the network owners.

To this effect we would suggest a two step approach which deals firstly with existing work on Extra High Voltage systems (to allow an early implementation of a common methodology), followed by separate proposals on the High Voltage & Low Voltage systems.

We note that the Distributed Energy Working Group have expressed interest in the development of distance related tariffs which are payable on the proportion of

demand that is met by local generation, with normal tariffs applicable for any top-up and back-up. We would need to see further details of such a proposal, but initially believe such a method may be unworkable – due to the complexity involved and inherent inconsistencies of running two tariff methodologies side by side.

We would support improved controls and more transparent calculations of distribution Line Loss Factors, including a full random audit of LLF production & calculations if required.

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?*

Centrica considers that a disproportionate cost may be being apportioned to the LV network and that a review of charging is appropriate.

Question 17: *Is there adequate availability of Exempt Supplier Services in the market place? If the 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 the availability of these services.*

In accordance with a competitive market, if sufficient demand exists, we would expect the market to respond with offers for appropriate services. Centrica would not wish to see intervention in advance of any evidence of market failure. We do not believe that the market has failed and therefore we don't believe that intervention of this type is required.

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.*

Centrica does not consider that an Exempt Supplier Services Obligation should be imposed on any or all suppliers.

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 dedicated DE representation is guaranteed at the Energy Network Association working group we believe that funding for this should be borne by those being represented.

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

Safety and technical standards should not vary between operators, as in our view this has potential to compromise the quality of supply to customers. In common with our answer under question 27, we do not consider that a two tier licensing regime would be appropriate, where minor adjustments are required, these could be accommodated within the current framework.

Chapter Six

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

We would expect government to conduct independent research to establish start-up costs and break-even points for small suppliers.

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?*

We do not object to the concept of long term contracts, in fact would encourage it as it aids customers in funding more costly investments. However, we do not believe that such opportunities should be restricted only to a limited number of new entrant suppliers, but instead should be available to all suppliers.

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?*

Centrica considers it reasonable that Ofgem and Government should provide advice and information to DE schemes, especially in respect of the regulatory framework.

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

We do not support the development of a two tier supply licence regime, and instead believe it preferable to amend the existing supply licence to incorporate any minor adjustments that may be required.

Any licensees should be required to fulfil the obligations as set out in the prevailing supply licence. Two tier licensing will only make the industry more complicated and confusing for end users, resulting in “double standards” and potential for creation of unintended consequences. Please refer to our previous comments, especially in respect of questions 21 and 25.

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.*

Centrica considers that any options for reducing the costs of becoming a licensed supplier should apply pro-rata to all suppliers, in the context of our previous comments in this response with regards to the obligations placed on licensees by the supply licences.