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Ofgem/BERR - Distributed Energy - Initial Proposals for More Flexible Market and Licensing Arrangements

- E.ON UK Response

E.ON UK is the one of the UK's largest retailers of electricity and gas, one of the UK's largest electricity generators by output, and operates Central Networks, the distribution network which covers a large proportion of England, across the East and West Midlands and beyond.

We are a leading developer of distributed energy (DE) schemes, and are actively changing our business to better aid the integretation and development of DE:

- We are a leading developer and operator of renewable energy in the UK, with 21 on and offshore wind farms and a dedicated biomass power station currently operational, and many more in development.

- We have invested over £480 million in larger scale CHP schemes in the UK and continue to be a leader in this part of the market. We currently provide our customers with more than 577MW of electricity and 948 MW of heat.

- At a community scale, E.ON runs Citigen in London, one of the largest district heating & cooling schemes in the UK. This involves a trigeneration CCHP, with a 6km heating and 4km cooling network serving a variety of public and private customers.

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- Our Sustainable Energy Solutions (SES) business aims to integrate our expertise across the market to provide a strong DE and energy efficiency service to domestic and business customers. We are a framework supplier in the Low Carbon Buildings Programme, and a market leader in ground source heat pumps, with over 1000 units installed so far;

- E.ON strongly supports innovation in DE technology and the development of competence and skills in partnership with academic institutions via involvement in a range of EU and BERR collaborative R&D projects and research studentships. Support in these areas is further enhanced by our £10M EPSRC Strategic Partnership, in which micro-generation features as one of the core themes.

- We are also heavily involved in installer training, and helped set up the UK's only installer training course;

We very much welcome the opportunity to respond to this consultation, and are deeply engaged in the debate on the role and development of DE.

E.ON strongly supports the role that DE can play in tackling climate change, supporting security of supply, and in particular, in bringing communities closer to the energy that they use. Many DE technologies are not yet fully developed and currently remain costly, the solutions required to effectively use them remain complex, and efficient integration remains an issue. E.ON believes that DE needs some support whilst these issues are resolved, but that market signals and Government policy are ensuring E.ON and companies like us are starting to invest significantly in this market area.

The current GB electricity network and market were not specifically designed with the development of DE in mind, and there are a number of regulatory and, in particular, cost barriers that may be perceived as preventing the efficient expansion of DE. E.ON fully supports efforts to remove these barriers, and hopes to make a positive contribution to this aim through our response to this consultation, amongst various other activities.

However, as can be seen in our detailed responses below, we do not believe that the regulatory and market issues highlighted in the consultation can be adequately remedied at the expense of, for example, competition principles and

customer protection. E.ON supports Ofgem, HM Government, and the EU, in the strong belief that competitive markets bring the best benefits to customers, both in terms of price and innovation. It is also E.ON's fundamental belief that the market is best served when all participants are treated equally.

E.ON supports efforts to review regulatory arrangements that promote equality across all participants. Equally, support mechanisms that exploit numerous, small regulatory differences or exceptions are rarely efficient or effective.

E.ON also believes that costs inherent to operating in the market must be acknowledged and borne by the party responsible for them. Small players may inherently be at a disadvantage where transaction or administration costs aren't proportional to size, but this is true of many markets and is not peculiar to energy, DE, or indeed, the UK.

We would ask BERR and Ofgem to keep this in mind when deciding whether perceived regulatory barriers are due to the nature of DE, or due to the nature (or size) of the participant. As stated above, it is E.ON's belief that participants should be treated equally wherever possible, and it should also be remembered that major suppliers, such as E.ON, as well as small unlicensed participants, are major developers of DE schemes,

If it is decided by HM Government that support for DE is required, it should be acknowledged as such and implemented in a simple and transparent way.

We would also ask Government and Ofgem to approach DE in a more joined-up and holistic way, particularly when considering the best potential role for DE in the expected new energy landscape of radically reduced CO_2 via the EU ETS, a paradigm shift in the amount of renewable energy required to meet the EU 20% target (up to 45% of electricity from renewable sources?), and replacement centralised plant with security of supply issues in mind.

It is E.ON's opinion that DE might best be heat-led / driven. It is therefore very important that the two highly inter-related issues of decentralised electricity and heat are being tackled together, with close coordination between this Ofgem/BERR consultation tackling regulatory barriers for distributed electricity, and the BERR Heat Inquiry.

Where DE is heat-led via CHP schemes, much of the need for exporting of electricity disappears (as these schemes tend to import electricity for top-up

rather than spill as export). If the economics of such schemes are based upon the heat element, with electricity generation as a 'bonus', then many of the regulatory barriers and perceived inequalities detailed in this consultation disappear.

We hope you find our response useful. If you have any comments or queries, or would like to discuss further any of our comments, please do not hesitate to contact me directly. E.ON's responses to specific consultation questions follows.

Yours sincerely

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E.ON UK Responses to specific consultation Questions:

1. Introduction

There are no specific questions in this chapter.

2. Background and Discussion of 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?*

E.ON believe that the most effective and efficient method of customer protection is through customer choice, supported by the current system of licences. The protection licences give customers includes freedom of choice of supplier and the provision of energy efficiency measures through CERT, amongst other measures. We do not therefore support the use of raising licence exemption limits as a method of supporting DE.

Administering licence schemes has a cost and there is a level where such schemes are no longer efficient, but this *de minimus* level should be based on the effectiveness of customer protection, not on the costs encountered by participants.

This also aligns with E.ON's general position that all participants in the market should be treated equally. All participants should face the true costs of their activities.

In addition, it should be noted that raising licence exemption limits as a method of supporting DE will only ever support a proportion of DE projects not DE as a whole (as only a proportion would benefit from being below the threshold for any exemption). E.ON considers it far more efficient to consider and support DE projects as a whole, rather than by taking a piecemeal approach.

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

As stated above, E.ON believes that the customer protection is most effective and efficient via the supply licence, and that all market participants should be treated equally. E.ON therefore does not support the use of exemptions to support the development of DE. The existing per company limit should therefore remain as a *de minimus* arrangement.

Question 3: *We welcome evidence on the size of DE scheme that would be considered economic and efficient in different settings if exemption thresholds were not an issue. We also seek views on what the appropriate exemption limits should be across generation, supply and distribution.*

A realistic, general view of the economy of DE projects under different circumstances is difficult because of the small evidence base and the bespoke commercial nature of individual developments. Each individual scheme has a number of input variables, output variables and risks it needs to manage which can impact the efficiency and economics of the scheme. The example below is illustrative but based on a real life scheme E.ON has been involved in:

Scheme description:

The re-development of a ten acre site including the provision of approximately 1,000 new residential units (59k m^2) with supporting Retail, Commercial and Leisure units (2.7k m^2).

Factors impacting the economic and operational viability of DE schemes:

1. Capacity & Connection:
    - Demand profile / weather / zoning
    - Spatial requirements
    - Expansion and future proofing
    - Distribution network requirements
    - Electrical substation location
    - Plant access
    - Site phasing

2. Social & Environmental:
    - Visual impact
    - Emissions

- Regulatory requirments / targets
- Public perception
- Public access for energy advice
- Fuel delivery

3. Commercial
   - Occupancy levels, speed & void periods
   - Developer commitment, building sale contribution
   - Capital investment, funding
   - Distribution network costs
   - Operation efficiency & system performance
   - Operation & Maintenance
   - Commercial & residential contract lengths
   - Customer churn
   - Regulatory change
   - Site mix & density
   - Fuel delivery

Potential financial range from such a scheme:

	Low	Medium	High
NPV (£k):	-449	153	755
Payback (years):	None	20	12

However, it is clear that if the development of DE is to be supported effectively, an accurate evidence base must be collected. E.ON would fully support further research by Ofgem into the economics of DE.

E.ON believes that the current exemption limits for distribution and supply generally work well in customer protection terms. However, we would support a review of administration costs to ensure that the balance of customer protection and efficiency is being maintained at an appropriate level as the make-up and size of energy projects shifts, and that all market participants are being treated equally as far as is possible.

As stated above, if such a review were undertaken, E.ON would not support the raising of the supply licence exemption threshold.

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

The 2001 Class Exemption Order sets out a number of physical constraints on the boundary of an exempt distributor. In practice, we have found that these can be problematic with roads and rivers often bisecting a customer's property. We would support an investigation into whether these geographical boundaries are warranted. It would perhaps be more relevant to maintain limits based upon a customer's property boundary and the amount of energy that they deliver.

3. Wholesale Market Trading

Chapter Summary: Larger scale DE generators can participate in the wholesale markets to sell their power as an alternative to participating in the supply market (discussed in Chapters 5 and 6). In this chapter, we set out the risks associated with this approach and how they might be reduced for DE generators. Two options for reform are considered that would reduce these risks and encourage DE operators to come forward with their own proposals to address the issues they are facing.

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?*

It is implied within the consultation that DE projects are only pursued by unlicensed generation parties. Larger licensed parties are investing significant amounts into the development of distributed generation as well as centralised transmission-connected plant. E.ON UK has a track record of raising and supporting meaningful amendments to the trading arrangements to facilitate DE. We have also opposed amendments that have simply sought to obtain an unfair competitive advantage for DE.

E.ON therefore believes that the interests of DE are already significantly represented within the present BSC processes.

We would question whether it is worth appointing a specific DE representative to the BSC at this point in time. We note that Ofgem is able to make such an appointment whenever it believes that there is a need. However, we also note from paragraph 6.27 of the consultation that the DEWG did not believe that there

were any obvious "quick wins" that could be achieved from changes to the industry codes.

We would therefore also question whether it is necessary to give rights to change the codes to parties who are not signatories to those codes. This point is of particular importance as we believe that parties that are able to raise changes should be exposed in part to the costs of administering the process. This acts as an incentive against raising a large number of speculative and controversial amendments that would cost the industry, and ultimately customers, significant amounts of money.

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?*

E.ON fundamentally believes that all market participants should be treated equally and fairly, bearing the costs of actions it takes. Any funding for specific DE representation should therefore come from those parties that the DE representative is representing in the first instance.

If a trade body represents the interests of smaller DE players in the BSC, then the funding can be delivered via it's members.

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.*

Firstly, we would like to address what we believe to be a misconception in the consultation document regarding the nature of embedded benefits:

On page 40 of the consultation document it is stated that "*it appears to be market practice for the supplier to take a share of the embedded benefits*" when contracting with a distributed generator. This is a misunderstanding in the way in which embedded benefits are received and distributed.

When a supplier and a distributed generator trade within a GSP Group, both

parties avoid certain charges such as Transmission Network Use of System Charges (TNUoS) and Balancing Services Use of System charges (BSUoS). These are termed 'embedded benefits.'

It is market practice for *suppliers* to give up a proportion of the supplier charges they have avoided as an incentive to encourage the distributed generator to contract with them. Suppliers do not keep any benefits that accrue to the generator from avoided generation charges. Some distributed generators may misunderstand this position and believe that they are somehow owed the entire benefit of the avoided supplier charges as well as the avoided generation charges. This may be why they believe that suppliers are taking some of the embedded benefits. However, the reality is that the suppliers are actually willing to give away some of *their* benefit from DE in order to compete for the business of embedded generators.

E.ON UK has recently been instrumental in the opposition within the industry to the possible erosion or removal of embedded benefits. Ofgem's Transmission Access for Distributed Generators Working Group met during the period from July 2006 and February 2007. The group included representatives of embedded and transmission connected generators, distribution companies, suppliers and transmission companies. It considered the nature of embedded benefits along with other issues relating to access for distributed generators.

As part of the group's discussions National Grid proposed the removal of net charging for distributed generators, which would remove the TNUoS element of embedded benefits. We led the almost unanimous opposition to this proposal within the group. Unfortunately, in July 2007 in an open letter on the work of the group, Ofgem appeared to support National Grid's view on this issue and recommended that the level of embedded benefits and the concept of net charging should be reviewed. The implication was that the present level of benefit was too high and that net charging was inappropriate.

National Grid is presently consulting with the industry on this action through its charging forums. E.ON will continue to question this proposed dilution of embedded benefits which we believe will not only act against the development of future distributed generation, but will undermine investments that many industry parties have already made in such projects.

4. Selling to Third Parties

Chapter summary: Generators of any size have the option of selling all their output to a third party such as a supplier, consolidator or a financing party typically on a long term power purchase agreement. However there are concerns that insufficient competition for the output is resulting in this generation being undervalued in the market. In this Chapter we propose a number of initial options for addressing these issues.

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.*

E.ON believes that 3rd party purchasers do not undervalue exports from DE schemes, and that the lack of numerous consolidators in the market shows clearly that the market for such generation is competitive (there is no clear margin for specific consolidators over other suppliers such as E.ON, therefore few if any consolidators can exist in the current market). We would suggest that data from NFPA auctions would show the trend in prices well, and we are happy to provide Ofgem with our own specific examples on a commercially confidential basis.

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

To a certain extent, economies of scale and the relative consistency of transaction costs for contracts of varying amounts of electricity mean that inevitably more emphasis is placed on securing larger contracts, particularly for 3rd party suppliers with a large customer demand.

However, as discussed in our answer to Q7 above, E.ON do not believe that there is a lack of competition for smaller amounts of generation, particularly that associated with ROCs.

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.

E.ON would question the view that there is a lack of consolidators in the market, as suppliers, ourselves included, provide implicit consolidation services through our purchasing of DE.

We do not subscribe to the view that only dedicated consolidators (with no demand portfolio) can give a fair price to DE generators, but agree that these consolidators can provide extra competition in the market.

It is E.ON's belief that dedicated consolidators are not currently entering the market because a fair price is being realised for DE, and that market forces will – and have in the past – brought forward dedicated consolidators to ensure adequate competition and proper price formation if the need arises.

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?*

E.ON does not see the need for a specialist energy trader. However, we would support the development of a specialist facilitator for small trades. This may be the best solution to counter the economies of scale issue. Our traders have indicated that they would be far more able to engage in much smaller trades if the administration costs and availability were more manageable. A centrally funded facilitator for small trades, similar to the NFFO auctions, would create wider competition for small generators' product.

In contrast a specialist trader would represent a serious intervention which would undermine the competitive wholesale market. We would question how an organisation that was effectively created by the regulatory bodies would be able to compete on an equal footing to other parties in a competitive market. Who would the company's shareholders be? Where would it obtain its capital from? How would the independence of the regulator be perceived if it was seen to be actively participating in the market in this manner? E.ON believe that this option would not represent a sustainable or efficient development.

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.*

E.ON does not support the formation of a specialist energy trader, but a facilitator, a suggested above, should be brought forward by a government organisation, similar to NFPA.

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

The intermittency and unpredictability of output of certain types of generation create a cost to the system in balancing, and these costs should be borne by its creators. The balancing and settlements system attempts to create this situation.

Improvements in the accurate forecasting of output can therefore decrease these balancing costs, and improve the economics of certain generation types.

However, it is E.ON's experience that small intermittent generation output is generally lost in the noise of our overall balancing position, thus improvements in forecasting for all but the largest schemes may not result in explicit benefit.

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

E.ON does not support this proposal. The creation of two markets out of the one that currently exists can only have a detrimental effect on the liquidity and competition that currently exists, having serious consequences for customers.

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

No. As stated above, E.ON would suggest the creation of a facilitation service for small trades similar to that the NFPA auction system uses. In our view this would be the most effective and efficient way to increase competition for DE output.

5. Operating as an Exempt Supplier on the Licensed Distribution Network

Chapter summary: This chapter discusses the issues facing smaller DE schemes considering using the licensed distribution network (sometimes referred to as the public network) to distribute energy to customers - namely the price and availability of Exempt Supplier Services, and the incentives that exist to operate on private wires instead. A number of options are proposed to improve the accessibility of the licensed distribution network to DE schemes.

Question 15: (There is no Question 15).

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?*

E.ON does not support the creation of a second, parallel electricity network, and will not support policy measures that incentivise the creation of such via private networks. We will however support the option to build and use private networks where they are clearly in addition to the present network and represent an efficient outcome for the electricity system, and customers, as a whole.

Customer protection is paramount, and E.ON does not support the use of private networks as a method to 'lock-in' customers and avoid competition, or as a way of bypassing the security and quality of supply obligations placed on licensed distribution network operators.

Private networks are rarely, if ever, completely islanded. Therefore, although there may be some benefit in placing supply near to demand, there is still a reliance on the transmission and distribution networks as a back up in case of outage, or as a

way to import and/or export supply to balance local demand as the need arises. Private network schemes therefore still create certain costs on network operators and the need for reserve generator capacity that they should pay for.

Given the current circumstances, E.ON can identify a number of potential reasons why private wires may seem attractive to DE developers:

- As stated above, the potential to restrict competition through customer switching and 3rd party access to the private network;
- The current definition of a Zero Carbon Home requires a private network;
- Lower DUoS costs, as DUoS is currently averaged across a distribution network;
- Uncertainty of changes to DUoS costs between Price Control periods;
- Actual maintenance costs of a new private network could be almost zero for a long initial period, as the network is made up of entirely new assets.

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.*

It is E.ON's experience that there has been zero demand for these services since the obligation to provide them was taken out of the supply licence.

If we were approached to provide them by a DE developer, we would be capable and willing to provide them. If the demand for such services increases then we will be willing and able to respond appropriately.

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.*

No. As stated in our response to Q17 above, E.ON are willing and able to provide such services. To date we have not been approached to.

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?*

Asking a private company that has the resource and capability to provide a service to those that don't at cost denies one of the fundamental principles of competitive markets: that private companies have the right to make a fair and appropriate return on the services they provide. All market participants should be treated equally and expect to pay a fair price for the services they require.

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?*

There is a case for ENA Technical Standards for Connection being reviewed by DE representation before their issue, but not for DE representation at the working group level. The reasons for this relate to the operational environment in individual companies and are further laid out in the response to Q22, option 6. Any representation should be funded by the DE players represented.

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

Technical standards are governed by Industry rules and regulations regarding safety and security/quality of supply, and are likely to be different for each DNO, as appropriate for their own network's circumstances. The nature of connections is also such that each connection is different and may have varying levels of complexity. It is therefore difficult to tackle technical standards as a whole.

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.*

E.ON has the following points to make on the proposed options outlined in the consultation document:

Option 3: request Suppliers and Distributors to come forward with proposals to trial ideas that benefit distributed generators, networks and customers

Ofgem have suggested that the RPZ scheme could be used to explore the value of DE to the network and trial innovative commercial arrangements, such as the "virtual private network". This would seem to be a sensible proposition and E.ON, via Central Networks, would welcome the extension of the scope of the RPZ scheme. This would require a change to the RPZ rules and should encompass both the facilitation of Distributed Energy and the reduction of network system losses.

Option 4: encourage licensed networks to develop a methodology for calculating Line Loss Factors for DE that reflects the close location of demand and generation within 12 months

Central Networks already use such a methodology. HV and LV line loss factors are the same for demand and generation. EHV line loss factors are individually specifically calculated.

Option 5: encourage licensed networks to develop cost-reflective DUoS charges for distributed generation within 12 months

Central Networks - working together with SSE Power Distribution and SP Energy Networks as the 'G3' group – are in the final stage of preparing to submit proposals to Ofgem for a new charging methodology.

This new methodology will provide sub-regional pricing signals to EHV customers and better recognise the network benefits that embedded generators can bring. If approved by Ofgem, the proposal could be implemented in all six distribution areas by April 2009. We are confident that implementation of these proposals will significantly improve incentives for embedded generators to develop projects in the most appropriate parts of our networks.

Option 6: Ofgem to monitor development and review of technical standards and practice for connection to the distribution network

Technical Standards reflect the operational environment and specific requirements of electrical networks which have been developed over time. They will also reflect the level of safety and performance risk that individual companies are prepared to accept. In addition the need for component compatibility for operational and strategic reliability reasons means that these Technical Standards are not just functional but also reflect an individual company's procurement and logistic policy.

Technical Standards will therefore vary between companies and a proper review of an individual company's Technical Standards will require expert knowledge of their network, management and procedures. If changes were 'required' this would effectively result in the micro-management of a company's policies and Ofgem taking responsibility for future safety and performance impacts. This is not the role of a regulator and is best left to companies as they are best able to control the risks.

This consultation does not consider the possible contribution that Export Management, Energy Storage, and Demand Side Management could make to network accessibility. Where DE has an element of intermittency and does not match demand patterns, this has to be compensated for by increased DNO network capacity and therefore increased connection costs. Any technical or commercial arrangement that reduces this divergence will improve accessibility.

6. Becoming a Licensed Supplier

Chapter Summary: Operators of DE schemes who, within their capacity as suppliers, are too large to operate within the terms of the 2001 Class Exemption Order should apply to become licensed suppliers. This chapter outlines the costs of becoming licensed and how these can raise issues because of the relatively small-scale of some DE schemes. A number of options for reform which are intended to reduce the costs of becoming a licensed supplier are discussed.

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

A realistic, general view of the economy of DE projects under different circumstances is difficult because of the small evidence base and the bespoke commercial nature of individual developments. However, it is clear that if the development of DE is to be supported effectively, an accurate evidence base must be collected of which start-up costs are a part. E.ON would fully support further research by Ofgem into the economics of DE.

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

E.ON believes that this question, and the others contained within consultation document relating to the economics of DE schemes, can only be answered by a full and proper investigation into the facts by Ofgem/BERR.

Heat-led CHP schemes will be highly important in the development of DE, arguably more so than electrical schemes. Consequently, E.ON would like to see a more holistic approach to DE in terms of heat and electricity, and draw the reader's attention to E.ON's response to the BERR Heat Inquiry for a more detailed understanding of our position on this issue.

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?*

E.ON does not believe that restricting competition can be a sustainable policy, no matter the objective. It should be noted, however, that the relaxation of the 28-day rule means that there is no limit on the length of contract that can be entered in to between customer and supplier, thus a 5 year contract is theoretically already possible.

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?*

It is understood that operation in the energy market is complex and requires specific expertise. Government or Ofgem, or possibly DE trade organisations, could usefully provide this information.

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

E.ON believes that the market is best served when all participants are treated equally. We therefore do not believe there is a case for a new DE-specific supply licence. Again this presumes that licensed suppliers will not be actively engaged in bringing forward DE projects in any significant way. E.ON are, and will continue to do so.

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.*

The options considered in the consultation document seem reasonable, and may result in smaller players needing fewer resources to become licensed suppliers.

However, E.ON would like to reiterate our fundamental belief that the market is best served when all participants are treated equally.

Smaller DE players do not face larger costs in absolute terms compared to larger players like E.ON, rather they face larger costs in proportion to their size. This is the same in any market, and is not just specific to energy or the UK. The perceived need to support DE through subsidy or a raft of regulatory exceptions and other measures raises the question of whether such measures supports DE no matter who is developing it, or just supports smaller players in the market.

If it Government's wish to support DE, then all participants in the market should be treated equally no matter their size. A simple financial support mechanism for DE can then be acknowledged and transparent to all.