



*energy trading solutions for the independent power and gas sectors*

11<sup>th</sup> March 2008

Anna Kulhavy  
Senior Economist – GB Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Anna,

**Re: Distributed Energy – Initial Proposals for More Flexible Market and Licensing Arrangements**

SmartestEnergy welcomes the opportunity to respond to the issues raised in the consultation and responds to the questions contained therein in turn.

**Chapter 2 Background & Discussion on Exemption Limits**

With respect to **Questions 1-4**, SmartestEnergy has no individual comments to make other than in our view the raising of Exemption Limits will resolve none of the broader, more fundamental issues facing DE schemes, particularly “non ROCable” schemes. These issues will be discussed below.

**Chapter 3 Wholesale Market Trading**

**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?

SmartestEnergy are not against it as such. However, representatives assess change but generally don't instigate it. The instigation is provided by industry, and recent examples of this include Bizz Energy; P211, Good Energy; P218, Utilita; Issue 30 & SmartestEnergy; P216.

**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?

Panel representatives are by their nature “independent”. However, should the constitution of the Panel change then there could be a case for DE representation in BSC governance. At this stage SmartestEnergy have no view on where the funding should come from.

**Question 6:** Have we considered all the options to address the risk DE schemes are exposed to if trading in the wholesale markets?

SmartestEnergy believes that the Consultation document broadly covers the risks DEs are exposed to other than Credit, to trade directly other than through Licensed Suppliers requires potentially large amounts of Credit Support. Credit collateral is likely to be required by not only Wholesale Electricity Counterparties, but also DNOs and Elexon.

#### **Chapter 4 Selling to Third Parties**

**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.

It is SmartestEnergy's opinion that third party purchasers do not undervalue exports from DE schemes. In addition, SmartestEnergy does not discriminate against DE technologies in the underlying discount it charges from the prevailing wholesale power price, or by requiring a minimum margin/scheme. In this regard, the "consolidation benefit" is shared across all parties. (Further evidence can be provided in confidence should Ofgem require it).

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

Ofgem need to clarify what is meant by "small" i.e. is small nameplate generation capacity or small export volumes? In SmartestEnergy's experience operating in the half hourly market, there is a lot of competition for the output from DE schemes. This competition comes from all the "big six" and a number of small independents. It is worth noting, however, that this competition is particularly prevalent for renewable DE schemes and large volume non renewable DE schemes.

**Question 9:** Have we considered all the reasons for the lack of development of consolidation services in the market?

All UK Electricity Suppliers are natural "consolidators" of Supply & Demand within their "consumption accounts". Therefore SmartestEnergy suggests there has been a lot of development of consolidation services in the market, particularly the half hourly market, though SmartestEnergy being the only UK supplier currently operating solely as a DE scheme consolidator. The barriers to entry are no different for a "consolidator" as they are a Licensed Supplier. Therefore in this context Ofgem, should consider the broader implications of barriers to market entry.

**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?

In SmartestEnergy's opinion there is already one "Specialist Energy Trader" operating in the half hourly market and that is SmartestEnergy, whose DE schemes range from 45KW to 100MW, across every technology both renewable and non renewable. In the non half hourly sector we believe that other Licensed Suppliers play a similar role such as Good Energy & Ecotricity.

**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.

SmartestEnergy do not believe this is necessary. (see answer to Question 10 above)

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

SmartestEnergy work very hard with their customers to understand forecasting capability of varying DE technology schemes, this includes using weather data, within day data from data collectors and "live" feeds from metering systems.

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

SmartestEnergy believes that within the current market arrangements this would be unacceptable. The UK power system is a totally integrated system, although "carving" DE schemes out of market trading arrangements they would still be physically connected to the system. Who then pays for the physical imbalance these schemes cause on the system? Those not fortunate enough to be in the dedicated market?

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

To re-iterate, SmartestEnergy believes there is already sufficient competition for small generator output in the market it operates in (i.e. half hourly).

## **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?

SmartestEnergy is not sufficiently experienced in this area to make any additional comments.

**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.

SmartestEnergy have never been approached to provide Exempt Supplier Services and would welcome the opportunity to discuss the requirements of DE parties requiring these services.

**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.

SmartestEnergy believe this would be difficult to implement, not because of the imposition of an obligation, but how it would control the “reasonable costs” suppliers incur from providing such services. Also what would the extent of such services be? Some Exempt suppliers may want the full service “registration to billing” others may not.

**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?

SmartestEnergy believes that “Fixed” costs could generally be controlled, though variable costs would be much harder to monitor and would require “an open book” approach from the Licensed 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?

SmartestEnergy is not sufficiently experienced in this area to make any additional comments.

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

SmartestEnergy is not sufficiently experienced in this area to make any additional comments.

**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.

SmartestEnergy believes that there could be merit in exploring the potential for a DE scheme to allocate its production to a nominated "local" demand thereby in effect reducing distribution charges (i.e. losses and usage charges) of that demand. This benefit could then be shared equally between producer and demand.

## **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?

SmartestEnergy suggests that costs vary depending on the market, the products and ultimately the forecast scale of the operations, but are likely to range between £200K and £2.0 million. Breakeven points will vary across market segments entered into.

**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?

SmartestEnergy is not sufficiently experienced in this area to make any additional comments.

**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?

SmartestEnergy is not sufficiently experienced in this area to make any additional comments.

**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?

SmartestEnergy believes that it would be helpful for DE schemes to have an "information pack" detailing the options available to them on interacting with the

UK Electricity market and believes that this should be a role undertaken by BERR.

**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?

SmartestEnergy believes that broadly there is enough scope within the current licensing regime for DE schemes to operate successfully.

**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.

It is SmartestEnergy's view that becoming a Licensed Supplier will not in its own right provide the panacea for the issues facing DE schemes, particularly "non ROCable and "non Renewable". It appears to SmartestEnergy that this consultation is primarily aimed at issues facing "CHP District Heating" schemes rather the broad range of technologies and fuel sources currently covering the "DE Market", much of which is operating successfully with the current Licensing regime. Therefore, SmartestEnergy would suggest that a CHP obligation or District Heating Obligation, much like the RO, be considered. We also suggest that this consultation should not be reviewed in isolation of all the other ongoing BSC modifications that impact on "small scale generation", such as the cash-out review.

SmartestEnergy are happy to provide any clarification or further information as required.

Kind regards

A handwritten signature in black ink, appearing to read "S. Armitage". The signature is fluid and cursive, with a large initial 'S' and 'A'.

Steve Armitage  
VP Commercial