

# **DISTRIBUTED ENERGY- INITIAL PROPOSALS FOR MORE FLEXIBLE MARKET AND LICENSING ARRANGEMENTS**

## **JOINT BERR/OFGEM CONSULTATION**

### **RESPONSE FROM THE COUNTRY LAND AND BUSINESS ASSOCIATION**

#### **INTRODUCTION**

1. The Country Land and Business Association (CLA) represents some 37,000 members who between them own and manage about half of the rural land in England and Wales. All our members are electricity consumers, whether as homeowners, or in the rural businesses they manage. Many of our members are now seeking to generate renewable heat and electricity as part of their own strategies for addressing climate change.
2. The CLA is committed to addressing climate change, and is the foremost rural organisation in addressing and advising on the impacts and strategies for climate change mitigation. We represent members on many Government working parties on rural climate change, biomass, biofuels and otherwise.
3. The CLA provided evidence to the Sustainable Development Commission's (SDC) enquiry "Lost in Transmission" and supports the conclusions of that report. We suggest the SDC report be taken as part of our response. It is available at [http://www.sd-commission.org.uk/publications/downloads/SDC\\_ofgem\\_report%20\(2\).pdf](http://www.sd-commission.org.uk/publications/downloads/SDC_ofgem_report%20(2).pdf)
4. From the viewpoint of prospective renewable electricity suppliers, the key questions and barriers that stand in the way of successful roll out of smaller scale renewables in the countryside is that of access (speed and cost of connection) to the low voltage grid operated by District Network Operators (DNOs). This is the "elephant in the room".
5. Our members as SMEs will seldom be engaged in half hour trading and will seek the services of one of the consolidators to manage this aspect of their business.
6. That said, it is clearly important that the embedded generation benefits that accrue from generation close to the point of use should be rewarded, and cost reflective structures be introduced. We are shocked that in the Ofgem Transmission Access and Distributed Generation working group (which CLA engaged in) the proposal that DNOs be set up as managers of supply in order to deliver these cost savings were not adopted.
7. We recognise that amongst DNOs there is a willingness to change, but regret that this has had wholly insufficient support from Ofgem. The duties of DNOs to their shareholders in the status quo means that the speed and cost of low voltage connections and the rewards offered to distributed generation will not change.
8. For the future, it is clearly desperately important that investment and skills are devoted to the creation of an interactive network. This was clearly described in the report commissioned by the DTI Centre for Distributed Generation and Sustainable Electrical Energy "Integration of Distributed Generation into the UK Power System" (Goran Strbac, Charlotte Ramsey and Danny Pudjianto, March

2007). (“The DTI Integration report”)Again, we ask that this report be treated as part of our response to the consultation.

9. We further argue that the information available to prospective distributed generators about locations that may reinforce networks and/or reduce transmission costs is not readily available. DNOs should be incentivised to provide this information.
10. We suggest that the very large costs involved in re-engineering networks as recommended in the DTI Integration report should not be charged to individual generators on a piecemeal basis: re-engineering the system is a social cost that should be borne by all electricity consumers in order to deliver a more sustainable network.
11. In practice, it is extremely hard for individual SME investors to challenge the costs quoted by DNOs for system reinforcement to accommodate their distributed generation proposals, and a better and more open system is required.
12. We urge Government and Ofgem to look again at the incentives that are offered DNOs and the licence conditions in respect of the connection of distributed generation. It is clear from evidence on the ground that neither the carrots nor the sticks are large enough at present to ensure that DNOs deliver both information on where to connect and the physical connections required in a timely and affordable manner.
13. Most Distributed Energy (DE) operators will seek private wire arrangements in order to escape from the cost, risk and complexity of supply arrangements. In particular, in connection with new sustainable development (both eco towns and larger scale extensions to existing settlements) developers face both timing and security issues over DE.
14. The practical problems may be illustrated by a timeline for an eco town development of 9000 houses.

	Phase 1: 3000 houses: 2008 - 2012	Phase 2: 3000 houses 2012 - 2016	Phase 3 3000 houses 2016 -2020
Electricity supply	grid	Part grid, part DE CHP	Private wire DE with CHP
Heat supply	Individual boilers	Boilers and waste heat from CHP	Waste heat

Without the ability to forward fund a CHP plant at an early stage, and the ability to secure contracts for heat supply going forward, inevitably the total DE supply to the eco town will be limited and there will be either a restricted use of CHP heat, or a significant stranding of individual boilers in the houses built in phase 1 and part of phase 2.

The key to unlocking the development finance to build the CHP plant and distribution network at an early stage is to enable the developer to secure both private wires (retail prices) and security through long term heat contracts.

At least part of this conundrum might be resolved were “short haul” use of system charges to be introduced. Exempt supplier services (including registration and reading of meters, consolidation and balancing of exported electricity) should be readily available at competitive prices.

15. That said, we welcome the consultation and offer our comments (where we have expertise) on the detailed questions posed as follows:

## **RESPONSE TO DETAILED QUESTIONS**

16. **QU.1**        outside our experience

17. **QU.2**        Yes, developers should be able to service more than one site on a private wire network

18. **QU.3**        We refer the respondent to the current proposals for both “ecotowns” and the larger scale development proposed for the Thames Gateway as well as other areas. These are very much larger than the current private wire limits. However, many of the incentives to develop private wires are based largely on the inappropriate use of system charges applied to the use of public networks. It would be preferable to change the use of system charges to better reflect the cost savings offered by distributed energy: the introduction of a short haul local use tariff is urgently required.

19. **QU. 4 (Chapter 2 – the first QU.4)**        The 2001 class exemption order is clearly a problem. The key driver for businesses that wish to run private wires networks is that they are exposed to the full use of system costs, and the loss of the retail margin if they do not. Were the rewards for DE to be similar (net of the costs of establishing and maintaining a private wire network) then the demand for higher limits would fade away. It is because the industry has no confidence in the ability of the existing regulatory framework to deliver them the same net level of benefits that the calls for a higher limit are so strong. In the current regulatory framework, without a substantive change to better reward DE, CLA would support an increase in the limits to 5MW.

20. **QU.4 (Chapter 3- the second QU.4)**        No, the Balancing and Supply Code is owned by indigenous investors who owe a duty to their shareholders to maintain the status quo. If real incentives and new ways of working are to be introduced, they will not arise from within the existing regulatory framework.

21. **QU.5**        CLA is unconvinced that funding a single (or even multiple) representative on the BSC will change the ground rules, given experience to date. We have heard from BWEA that a member sought to propose a change last year, but as it had no support from existing members it sank without trace.

22. **QU.6**        CLA has no magic wand to wave. Our concern is that under current arrangements, the BSC process appears the only mechanism available to change the Code. We argue that any change which may impact on the interests of existing large scale fossil fuel generators (however important it may be for DE) will be lost. Thus a re-ordering of the system which better supports DE, and indeed is more cost reflective for distributed generators who make only minimal use of the system (appearing in many cases on the network in exactly the same form as efficiency gains or reductions in demand owing to relocation of business users) will require action by BERR/OFGEM to deliver it.

23. **QU.7** Yes, third party purchasers commonly take a margin.
24. **QU.8** Yes, there is a lack of competition for the output from small generators. There are now only 6 suppliers and it is (outside of private wires) too expensive and complicated for any DE operator to set up in competition.
25. **QU.9** The range of consolidators is increasing, and their services are essential to small scale generators. We suggest that you consult the following as to any further action that may be taken to ensure they can better support the DE industry by provision of their services:

<b>Smartest Energy</b>	<b>Econnect</b>	<b>Pöyry Energy Consulting</b> (formerly Ilex)
17 Dominion Street London EC2M 2EF	Energy House 19 Haugh Lane Ind Est Hexham Northumberland NE46 3PU	King Charles House Park End Street Oxford OX1 1JD
Tel: 020 7448 0900	Tel: 01434 613600	Tel: 01865 722660
Email: <a href="mailto:sales@smartestenergy.com">sales@smartestenergy.com</a>	Email: <a href="mailto:info@econnect.co.uk">info@econnect.co.uk</a>	Email: <a href="mailto:energy.consult@ilex.co.uk">energy.consult@ilex.co.uk</a>
Web: <a href="http://www.smartestenergy.com">www.smartestenergy.com</a>	Web: <a href="http://www.econnect.co.uk">www.econnect.co.uk</a>	Web: <a href="http://www.ilex.co.uk">www.ilex.co.uk</a>

26. **QUs.10, 11, 12, 13**      **Amendments to existing market arrangements**

CLA welcomes the proposals for increased competition in the consolidation market. We suggest that if the changes we advise are made, the market for DE will grow and enable competition in the market. However, broadly speaking, the modest changes discussed are deeply unlikely to make a significant change to the proportion of DE in the system. Nonetheless, efforts are needed to secure a greater proportion of the value of DE to the generator, and a short haul tariff would go a long way to achieving this.

27. **QU. 14 Other options:**      The elephant in the room is, of course, a Feed In Tariff. This (provided it is set at an appropriate level) would transform the market for DE and overcome the problems of NETA and balancing and supply codes at a stroke.

28. **QU 16 ( there is no Qu 15)**      The market trade offs and incentives for private wire arrangements feeding off site customers are outside CLA experience. We are advised it depends on issues of scale, phasing of larger scale development (see paragraph 14 in the introduction above)and the availability of exempt supplier services.

29. **QU 17** No, there is a market failure in exempt supplier services. CLA regards intervention by the regulator as essential to ensure the provision of meter accreditation and reading, together with market balancing is readily available at competitive prices.
30. **QU 18** The CLA would support an exempt supplier service Obligation on all suppliers.
31. **QU 19** The CLA regards the regulation of the cost of obligated supplies as essential, at least in the early stages: the obligation should be phrased in terms of meeting demands at system cost. Providing suppliers can secure the reasonable costs of providing the services, overall consumer costs should not rise.
32. **QU 20** As a general comment, there appears in society in general to be an increase in application of the precautionary principle which tends to increase costs to meet the very worst case scenario. The CLA regards this as irrational, and suggests a risk based approach generally leads to optimum solutions. We fear that ENA network owners will always seek the highest possible standards in order to protect their investment, particularly as other people must pay for them, rather than optimum standards. Whether a DE representative can overcome this is a moot point.
33. **QU 21** We trust others more expert in electrical engineering will be able to offer examples of inappropriately high standards.
34. **QU 22** CLA supports an obligation on suppliers to deliver services to DE on demand at system cost.
35. **QU 23-28** CLA members are almost exclusively SMEs and we have no knowledge that any have sought to become a licenced supplier. We are thus unable to provide evidence on this. However, if the objections to increasing exemption limits are upheld, it seems clear that on the face of it a special low cost from of licensing for DE would be necessary.

We trust these answers are helpful and regret that we were unable to complete the consultation response within the consultation period.

Nonetheless, we trust that our views will be taken into account

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