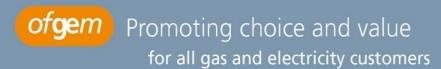


ofgem) Promoting choice and value for all gas and electricity customers

Entering Microgeneration into Settlement

Microgeneration Forum

26 June 2008



Discussion will cover

Context and issues

Lessons from previous proposals

Implications of feed-in tariffs

Discussion



Context

- Energy Review identified financial and non-financial barriers to uptake of microgeneration
- Microgeneration Strategy took forward several work streams to address non-financial barriers
- Value of microgeneration to customer is the combined value of displaced imports and the export it sells (plus any 'green benefits') less set up costs
- The low carbon buildings programme provides some direct financial support to help with capital costs
- Fair reward for excess electricity sold back boosts the economics of microgeneration market review found fair reward available in market



Issue

- High transaction costs are disproportionate to registering small ۲ volumes of export from microgeneration into settlement
- As a result, most exports are not processed using the settlement ۲ arrangements
- Suppliers receive no value for the electricity spilled onto system
- Exported electricity has low commercial value ۲
- Purchase price represents a direct cost to the supplier ۲
- Spilled energy contributes to errors in settlement arrangements

As microgeneration increases the lack of a low cost solution:

- 1. Could undermine market for exported energy and the sustainability of existing offers
- 2. Could have a material impact on the accuracy of settlement in future



Previous proposals

- Attempts to address through modifications to industry arrangements
- P213: register both imported and exported energy under a single MPAN
- P218: enter deemed exports under portfolio MPAN for each supplier in each GSP

What we've learned from these proposals

- Allocating some of the exports spilled onto system would be a positive for market competition
- However could introduce other error eg volume error likely in P218
- Introducing and administering new systems and processes are costly
- Interacting with existing arrangements add complexity
- We are still a fair distance from a breakeven point to settle metered exports from domestic microgeneration



So should we care about the settlement of export if FITs are on the agenda?

- Export reward becomes a non-issue
- But still need a low cost settlement solution
- Settlement accuracy could become material
- On top of FITs, more spilled energy would result in higher costs to customers
- If a mandated FIT replaces the RO, the value of (RE) microgeneration exports to suppliers declines
- What would a FIT do to incentives for suppliers to compete for the purchase export?
- What would an FIT do to suppliers' incentive to develop low cost settlement solution, particularly domestic scale microgeneration?



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