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 volumes of export from microgeneration into settlement
- As a result, most exports are not processed using the settlement arrangements
- Suppliers receive no value for the electricity spilled onto system
- Exported electricity has low commercial value
- Purchase price represents a direct cost to the supplier
- 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?


ofgem
Promoting choice and value
for all gas and electricity customers