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Our Reference:

Your Reference:

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Dear Anna,

Distributed Energy – Further Proposals for More Flexible Market and Licensing Arrangements

Thank you for providing Scottish and Southern Energy with the opportunity to comment on the above consultation document.

SSE believes Distributed Energy has an important part to play in meeting Britain's energy requirements, environmental and renewable targets; particularly in relation to carbon emissions. Whilst the Distributed Energy market is still developing, we believe there is evidence that it is adapting to meet requirements. Some progress has been made in relation to provision of consolidation and supplier services, competition is emerging for electricity output, environmental benefits are feeding through to price and there is a more balanced approach to sharing of risks and rewards between purchasers and sellers of the output. As such, we do not believe there is a need to introduce specific trading or market arrangements for Distributed Energy. Indeed we believe such measures are likely to introduce unnecessary complexity and be counter-productive.

Notwithstanding the above, SSE believes there are elements out with the trading arrangements that require urgent attention; the most critical of which is the need to ensure an appropriate funding arrangement is introduced to cover the high capital cost of the heat element of DE and ensure low carbon heat benefits are rewarded in their own right. Urgent clarification is also required in relation to the Citiworks case to alleviate industry uncertainty with regard to the exemption regime. Comments on these and other aspects of the consultation document, including specific questions raised by Ofgem, are detailed below.

Funding Arrangements For Heat

Distributed Energy can be an efficient way of providing heat and power. However efficiency and environmental benefits are not appropriately rewarded under current arrangements. The capital cost of installing plant is high. Whilst the technology is efficient a project is often only viable where the cost can be assessed against the wider benefits. Under a "public wires"

framework, the costs and benefits must be separately accounted for, reducing the overall benefit for the heat and generation element. It is therefore essential that going forward low carbon heat benefits associated with DE are recognised and rewarded in their own right.

It is disappointing that this issue has yet to be addressed. We believe it has acted as a deterrent to the development of Distributed Energy projects in the UK and needs to be addressed as a matter of urgency. We are concerned that the timescales set under the Renewable Energy Strategy and Strategy for Heat are too long.

SSE looks forward to commenting on this issue further under the relevant consultations.

Class Exemption

Whilst we appreciate Ofgem and BERR are still considering the findings of the Citiworks case, SSE is concerned that implications could be wide reaching. Again, the timescale set for reporting back to the industry is too long. The uncertainty this creates in the meantime increases risk and potentially delays project development. We urge Ofgem and BERR to progress the review as quickly as possible. Careful consideration should be given to how any changes are introduced, to ensure existing DE schemes are not penalised and to ensure changes are proportional.

Whilst SSE had previously argued for an increase in the exemption threshold we recognise there may be wider benefits associated with licensing, providing appropriate funding of heat is addressed. As such we look forward to further consultation in this area and redrafting of elements of the Order to provide greater clarity.

Industry Compliance

It would appear that there is a real push for a “public wires” framework. SSE believes Ofgem’s proposal to amend Standard Licence Condition 11.2 is a practical first step. However it is essential that the condition is only switched off where it has been demonstrated that appropriate alternative arrangements are in place. SSE believes it is important that the process and criteria to be applied are transparent, to allow parties to assess options and give confidence that arrangements are applied in a fair and consistent manner. Arrangements must be robust, to protect customers and other market participants.

SSE supports the collective licence modification route, supported by individual direction by the Authority on a case by case basis.

We believe it may be appropriate to introduce thresholds above which the ability to discharge SLC 11.2 obligations through a third party would no longer exist. We believe a threshold could be set based on customer numbers and / or demand. This would help ensure suppliers compete on an equal footing under credible scenarios. We believe further consideration and consultation on this issue is required.

Wholesale Trading

SSE believes concerns relating to wholesale trading arrangements are secondary, relative to funding for heat and exemption arrangements. As detailed above, SSE does not believe wholesale trading arrangements act as a significant barrier to development or operation of DE. This seems to be supported by the evidence presented in the Ofgem consultation document.

We recognise that cashout arrangements can be difficult for distributed generators to manage but we believe there is scope to improve arrangements by stripping out elements that relate to system rather than balancing actions. This issue is currently being addressed by the industry and is not specific to DE. As such, we do not support any initiative to introduce specific arrangements for DEs. We believe this would introduce unnecessary complexity with little or no benefit. Similarly, SSE does not support proposals to introduce a shorter gate closer period for DEs. As above, we believe this would introduce unnecessary complexity, could increase workload for distributed generators (monitoring and updating positions over a longer period of time) and increase uncertainty for the system operator.

Supplier Services

We believe there is evidence that supplier services are available and being offered on request. As such we do not believe there is any need to regulate the provision of such services or introduce obligations or incentives in this area. We believe this would be a backward step. Similarly we do not believe that it is necessary or appropriate to standardise agreements, services or tariffs. We believe it should be left to the market to develop and provide services on flexible and commercial basis, tailored to individual needs.

Distribution Charging Methodology and Connection Policy

SSE notes steps taken by Ofgem recently to introduce common charging methodologies across all DNs. SSE is concerned that this fails to recognise and address the key issues required to facilitate DE. SSE does not believe that connection policies or charging methodologies are a deterrent to DE.

Use of System benefits associated with DE are recognised to a certain extent under the current framework. As indicated above, they are key to the financing of such schemes. However we believe there is further scope to ensure full benefits are passed on to encourage connection of embedded low carbon energy. We believe there is scope to introduce zero use of system charges for all green energy, but are concerned that policy objectives relating to “locational signals” could be conflicting and counter productive, particularly in terms of meeting environmental and renewable targets.

Other key issues that need to be addressed include the requirement to develop and implement a planning policy that facilitates the connection of DE and access to the transmission system, which in Scotland, is currently preventing the connection of even small schemes on the distribution network.

Ofgem Specific Questions

Chapter 3 – Wholesale Market Trading

Question 1: We welcome views on whether the Authority should exercise its power as provided for under the BSC to designate a third party representative to raise BSC code modifications.

SSE does not support proposals for specific representation on the BSC Panel and do not understand how proposals to designate a third party representative would work. We are not aware of any specific circumstances under which the relevant parties have not been able to contribute to industry developments. Also, proposals to designate a third party representative seem to be inconsistent with the general principle established for the BSC Panel whereby all members are required to act independently for the benefit of the market as a whole. Further clarification is required in terms of how such an arrangement would work, the rationale behind such an approach and details regarding appointment, representation, funding etc.

Question 3: In terms of the length of designation, we believe that a period in line with the Panel's term (e.g. 2 years) may be a suitable period with which to trial this proposal. WE would welcome stakeholders views on the period for which designation might last.

We are unable to comment until clarification is provided in relation to Question 1.

Question 4: We would welcome views on whether the designated party should be obliged to contribute fees to Elexon in order to participate in the BSC change process. If so, how should the level of contribution be determined?

As detailed in our previous response, we believe any requirement that DE fully fund representation is likely to be prohibitive. However, to the extent that incremental costs are incurred they should be proportionate and funded by those that benefit.

Question 5: Should any other codes be examined in relation to lack of DE representation?

SSE does not believe there are any other specific issues at this point in relation to other codes and representation.

Question 6: We invite stakeholders to identify any good quality information currently available that would be suitable for including in the development of a user friendly information hub on the process of setting up and operating a DE scheme.

SSE believes sufficient information is currently available on the Ofgem and National Grid websites, from industry associations, consultants etc. We note Ofgem's suggestion relating to a "user friendly information hub" but it is not apparent to us who would be responsible for setting this up or updating information. Funding would also have to be considered. Without such details we are unable to provide further comment.

Question 7: Do you agree with the proposed license amendment to SLC 11.2 (see Appendix 2) – please indicate whether you would accept the proposed license amendment.

SSE is generally supportive of the draft outlined in Appendix 2 of the consultation document. However, we believe further detail and clarification is required to confirm how this will be applied, in particular:

- the criteria / threshold to be applied,
- the application process,
- timeframes,
- clarification on whether relief could be given to some but not all codes,
- whether relief is time limited,
- would compliance / relief be audited in any way?

We believe further consultation and clarification is required in relation to the above. In particular we believe it is essential that Ofgem is satisfied that arrangements entered into are robust and maintained before granting relief from the relevant obligations.

Question 8: Should Ofgem issue guidance on eligibility criteria for switching off the code compliance licence condition? If so, what should the main criteria be?

As indicated above, we believe clarification is essential. A guidance document would help improve industry awareness and understanding of arrangements, help potential developers understand options and give confidence that arrangements are being applied in a fair and consistent manner. We would expect evidence to be provided that robust arrangements are in place in relation to provision of the following services:

- registration
- metering
- data collection, aggregation and processing

- change of supplier arrangements
- generation, top-up and backup services
- use of system
- settlement etc.
- credit arrangements

As suggested above, arrangements should be approved by Ofgem before relief is granted under SLC 11.2, to ensure there is no detrimental impact on customers or other market participants. However we do not believe there is any need for a generic agreement. We believe it is important that flexibility exists to deal with individual circumstances.

Question 9: Should Ofgem establish an industry working group to develop a good practice guide on supplier services agreements?

We do not believe this would bring any significant benefit. We believe there is evidence that services are available and developing. We believe arrangements need to be flexible to allow parties to negotiate arrangements that suite specific needs.

Question 10: How should the risk of a breakdown in the DE-Agent relationship be mitigated

SSE strongly believes that under the proposed arrangements suppliers providing a service under SLC 11.2 would have no direct responsibility for DE customers. The DE retains responsibility should the relationship with the licensed supplier breakdown. We believe appropriate commercial arrangements could easily be established e.g. to appoint another licensed supplier to mitigate any risk. We believe this should be a key element of the compliance framework applied by Ofgem when considering granting relief under SLC 11.2. Similarly we believe fall back arrangements need to be developed to cover the situation where a DE drops out of the market. We believe further consideration needs to be given to these matters to ensure customers are protected. Existing arrangements e.g. SOLR may provide a useful starting point. We do not believe this is a significant obstacle.

We hope you find these comments useful. Should you require any further information or clarification, please feel free to contact me at the above address.

Yours sincerely

Beverley Grubb
Regulation Manager