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

Dear Anna

E.ON UK is the one of the UK's largest retailers of electricity and gas, one of the UK's largest electricity generators by output, and operates Central Networks, the distribution network which covers a large proportion of England, across the East and West Midlands and beyond.

We are a leading developer of distributed energy (DE) schemes, and are actively changing our business to better aid the integration and development of DE:

- We are a leading developer and operator of renewable energy in the UK, with 21 on and offshore wind farms and a dedicated biomass power station currently operational, and many more in development.
- We have invested over £480 million in larger scale CHP schemes in the UK and continue to be a leader in this part of the market. We currently provide our customers with more than 577MW of electricity and 948 MW of heat.
- At a community scale, E.ON runs Citigen in London, one of the

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largest district heating & cooling schemes in the UK. This involves a trigeneration CCHP, with a 6km heating and 4km cooling network serving a variety of public and private customers.

- Our Sustainable Energy Solutions (SES) business aims to integrate our expertise across the market to provide a strong DE and energy efficiency service to Government and business customers. We are a framework supplier in the Low Carbon Buildings Programme, and a market leader in ground source heat pumps, with over 1000 units installed so far.
- E.ON strongly supports innovation in DE technology and the development of competence and skills in partnership with academic institutions via involvement in a range of EU and BERR collaborative R&D projects and research studentships. Support in these areas is further enhanced by our £10M EPSRC Strategic Partnership, in which micro-generation features as one of the core themes.
- We are also heavily involved in installer training, and helped set up the UK's only installer training course;

E.ON strongly supports the role that DE can play in tackling climate change, supporting security of supply, and in particular, in bringing communities closer to the energy that they use.

Many DE technologies are not yet fully developed and currently remain costly, the solutions required to effectively use them remain complex, and efficient integration remains an issue.

E.ON believes that DE needs some support whilst these issues are resolved, but that market signals and Government policy are ensuring E.ON and companies like us are starting to invest significantly in this market area.

In response to your specific questions:

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 with DE interests or expertise to raise BSC code modifications.*

Larger licensed parties, as well as unlicensed generation parties are investing significantly in DE projects. E.ON UK has a track record of raising and supporting meaningful amendments to the trading arrangements to facilitate DE.

We therefore believe that the interests of DE are already significantly represented within the present BSC process such that further DE representatives for the BSC are not needed at this time.

Question 2: *We welcome expressions of interest from stakeholders interested in having the power to raise code modification proposals on behalf of DE schemes. For those interested parties, please highlight specific reasons why this power should be conferred upon you.*

If such a stakeholder was to have the power to raise code modifications on behalf of DE schemes, it would be necessary to ensure that any such stakeholder's interests were such that they could be relied upon to provide fair and impartial representation.

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 believe that a period in line with the Panel's term (e.g. 2 years) would be a suitable period with which to trial this proposal. If such a designation did take place there should be the ability for the wider group to have powers to appeal against the ongoing representation should a majority decision be reached that, in light of experience, it was inappropriate.

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?*

Parties that raise changes should also be exposed in part to the costs of administering the process. Therefore, if such a proposal was to be adopted it is our view that fees should be contributed to.

The designated party would be representing the DE interests of a number of participants and for simplicity the level of contribution could perhaps be a reasonable flat fee.

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

We do not believe that any other codes should be examined as no evidence of any particular issues has been demonstrated.

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.*

As a general observation in our view there is currently a lack of good quality, easily accessible information for the general public or prospective developers about DE.

This is an important omission given the volume and fast-moving nature of the DE market. The Energy Savings Trust (EST) is reviewing the information it provides and is hoping, with the help of the Micropower Council (MPC), to develop a new independent information hub specifically about microgeneration.

The aim of this initiative is to have a consumer-friendly hub endorsed by both Government and industry. This process is currently in need of more support from Government but if it goes ahead it would provide a good model of how a tailored and well-structured information hub could be provided to prospective DE developers.

This DE Information Hub could include information from the Combined

Heat & Power Association (CHPA), Heating and Hotwater Industry Council (HHIC), MicroPower Council, Renewable Energy Association (REA), Energy Saving Trust and the Carbon Trust. We would welcome Ofgem taking a pro-active facilitator role in the delivery of this service.

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

We believe that the most effective and efficient method of customer protection is through customer choice supported by the licensing framework. The protection licenses give customers includes freedom of choice of supplier and the provision of energy efficiency measures through CERT amongst other measures.

It is acknowledged that administering licensed schemes has a cost and that there is a level where such schemes are no longer efficient, but this *de minimus* level should be based on the effectiveness of customer protection, rather than on the costs encountered by participants.

We believe that all participants in the market should be treated equally and that they should face the true costs of their activities.

We have experienced no demand for Exempt Supply Services to date from customers and hence we were comfortable when the obligation to provide the service was recently removed from the Supply Licence.

As suggested in your consultation document there may be a degree of the market not evolving as there are no products available although we have no evidence to substantiate this.

The suggested proposal is for DE schemes to not personally need to bear the direct costs of complying with complex industry codes. Instead they would set up an agreement with a third party supplier to undertake these conditions for them (and to pay the third party supplier for the marginal costs that they bear). This would appear to be a sound principle that we would consider endorsing.

We may even consider providing this service to DE operators in the future if it were economically viable and with appropriate market conditions in place.

There are however a significant number of potential issues with this approach that have yet to be considered thoroughly. There is a real risk to the existing competitive retail markets should the concept not function appropriately and we would like to see all the issues explored and risks mitigated before we would be happy to support the proposed Supply Licence amendment to SLC 11.2

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?

It would appear to be appropriate to allow licensees to self-elect whether to apply for a direction from the Authority if they think that this will suit their circumstances.

A specified set of eligibility criteria would help potential DE operators to understand if they would qualify. Due to the varied nature of these schemes each situation would need to be determined upon at an individual level.

The eligibility criteria should include the size of the scheme based upon both capacity or customer numbers and potentially its specific commercial characteristics.

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

There are a number of issues with regard to this proposal that would merit an industry working group to consider and develop solutions. E.ON would be happy to share its experience as part of such an industry working group.

The forming of a good practice guide should benefit smaller DE players and help to ensure that key requirements are adhered to.

It may be that the good practice guide could evolve into a more established Code of Practice that both DE providers and Exempt Supplier providers sign up to. This may make the administration of the exemption processes easier and provide more comfort to market participants.

A Code of Practice would allow services to evolve and would ensure that providers of services contractual arrangements with DE schemes remained fit for purpose.

We believe that Ofgem is correct to suggest that it should not regulate the prices at which these agreements are offered as this should be driven by the specific of each case and by competition.

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

Procedures or rules to cover instances of a breakdown in the DE-Agent relationship could form part of the Code of practice for the provision of exempt services. This would ensure that there was a minimal level of contractual protection in the event of a dispute.

It is likely that there is going to be a need for an arbitration option for the exempt services contract. Considering the licence ramifications for a failure in the service provision it would seem appropriate that Ofgem may be considered to facilitate this role.

It is our opinion that if the DE party ceased to operate (e.g. went into liquidation) that the customers would remain supplied under the licensed Agent's supplier id and a default Supplier of Last Resort situation would apply. We recommend that such an eventuality should be covered within the Code of practice.

Yours sincerely

Alex Travell
Retail Regulation