



Martin Crouch  
Director, European Strategy and Environment  
Ofgem  
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LONDON  
SW1P 3GE

5 August 2008

Dear Martin,

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

I am writing on behalf of CE Electric UK and its licensed electricity distributors Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

We welcome these proposals and support the direction you are taking. We agree that strong retail supply competition delivers many benefits to customers and, therefore, that distribution licence exemption thresholds (which restrict third party access) should not be raised. We welcome the recognition that distributed energy (DE) schemes can be supported over public licensed distribution networks. In turn, we also recognise that we have work to do to implement these solutions.

*Tariffs and Loss Factors*

We recognise that there is work to do further to support DE schemes, in particular developing Distribution Use of System (DUoS) tariffs and Line Loss Factor (LLF) codes that better reflect the impact of DE schemes upon our distribution system. We have engaged Bath University, as previously employed by WPD to develop a new charging model, to perform the same for us. This should allow us to propose new DUoS tariffs and LLF codes for DE schemes and inset networks by Christmas 2008.

This is not the same as a general negative tariff for generators, although it may be possible to justify that separately. We envisage an arrangement specific to DE schemes where we know the electricity generated will be used locally, reducing demand (and losses) on the wider system.

*Zero-Carbon Homes*

As you noted in paragraph 1.15 of your initial proposals, the potential difference in emphasis between your proposals and the Department for Communities and Local Government (DCLG) policy statement 'Building A Greener Future' needs to be addressed. We appreciate the desire for generation from low/zero carbon sources on site, rather than offsetting consumption by generation at some remote location. However, we do not believe that this requires private wire connections as the initial policy position proposes.

**CE ELECTRIC UK FUNDING COMPANY**

The work you have led, summarised in your proposals, shows that the zero-carbon requirement for new domestic developments can be delivered over public licensed networks, because any DE scheme can be delivered over public licensed networks.

We suggest that the definition of 'True Zero Carbon Dwelling' (as, for example, in DCLG's Code for Sustainable Homes - Technical Guide) be amended from:

*Where net carbon dioxide emissions resulting from ALL energy used in the dwelling are zero or better. This includes the energy consumed in the operation of the space heating/cooling and hot water systems, ventilation, all internal lighting cooking and all electrical appliances. The calculation can take account of contributions from onsite renewable/low carbon installations.*

*Off-site renewable contributions can only be used where these are directly supplied to the dwellings by private wire arrangement.*

to:

*Where net carbon dioxide emissions resulting from ALL energy used in the dwelling are zero or better. This includes the energy consumed in the operation of the space heating/cooling and hot water systems, ventilation, all internal lighting cooking and all electrical appliances. The calculation can take account of contributions from renewable/low carbon installations which are either on/in the dwelling or elsewhere on the development site.*

This would bring the benefits of low-carbon energy and retail competition to new domestic build.

In summary, we:

- agree that sustaining retail competition is a key benefit for customers;
- submit that supply and distribution exemptions can be considered separately;
- agree that DE schemes can and should be facilitated over public licensed networks, so there is no need to raise the distribution licence exemption limit;
- look forward to working with you to address the potential difference in emphasis between your proposals and DCLG policy on zero-carbon homes, bringing the benefits of low-carbon energy and retail competition to new domestic build;
- recognise that we need to reform tariff and loss factor formulation. There are barriers in the structure of the current price control and in the requirements for formal change of methodology. We look forward to bringing forward innovative solutions on a trial basis to address these issues

We look forward to continuing to work with you in this area. Specifically, we would be glad to meet you to discuss these ideas. In the interim, if you have any questions please contact Dave Miller (0191 387 7140).

Yours sincerely



John France  
**Regulation Director**