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Promoting choice and value
for all gas and electricity customers

Hyrwyddo dewis a gwerth
i bob cwsmer nwy a thrydan

Welcome to the DG Forum

JAMES VEANEY
Head of Distribution Policy
Ofgem

Agenda

10:00 Ofgem presentation: Regulatory Landscape of DG

10:45 DNO presentation

– 11:30 Coffee break

11:45 NGET presentation

12:00 Stakeholder presentations

– 13:00 LUNCH

13:45-Introduction to afternoon session followed by breakout sessions:

1. Micro -generation specific
2. ≥50kW
3. Cost and Charging
4. Application process
5. Transmission issues

– 14:25 Coffee

14:30 Breakout session 2

15:15 Breakout session 3

16:00 Closing remarks

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Regulatory Landscape for Distributed Generation

JAMES VEANEY
Head of Distribution Policy
Ofgem

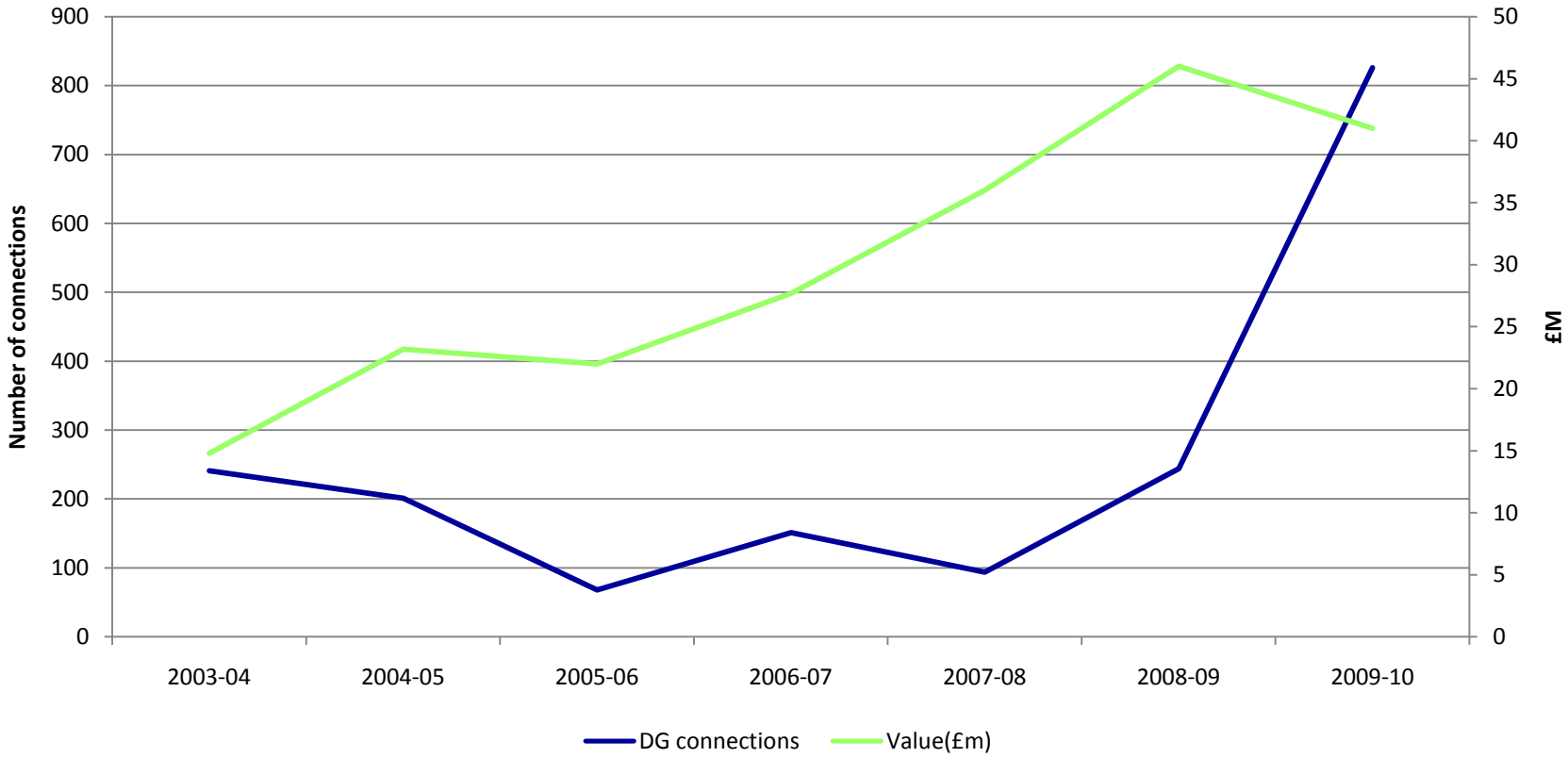
Who are Ofgem?

- Ofgem is the **Of**fice of **G**as and **E**lectricity **M**arkets. It is governed by GEMA the **G**as and **E**lectricity **M**arkets **A**uthority.
- The protection of consumers is the Authority's primary duty
- This is achieved by promoting competition, wherever appropriate, and regulating the monopoly companies which run the gas and electricity networks.
- Regulation involves granting of licences, monitoring network operators' performance, developing incentives to encourage/discourage certain behaviours, approve charging methodologies (not prices), determine in disputes between networks and customers and we set annual revenues through regular price controls.

Our interest in DG

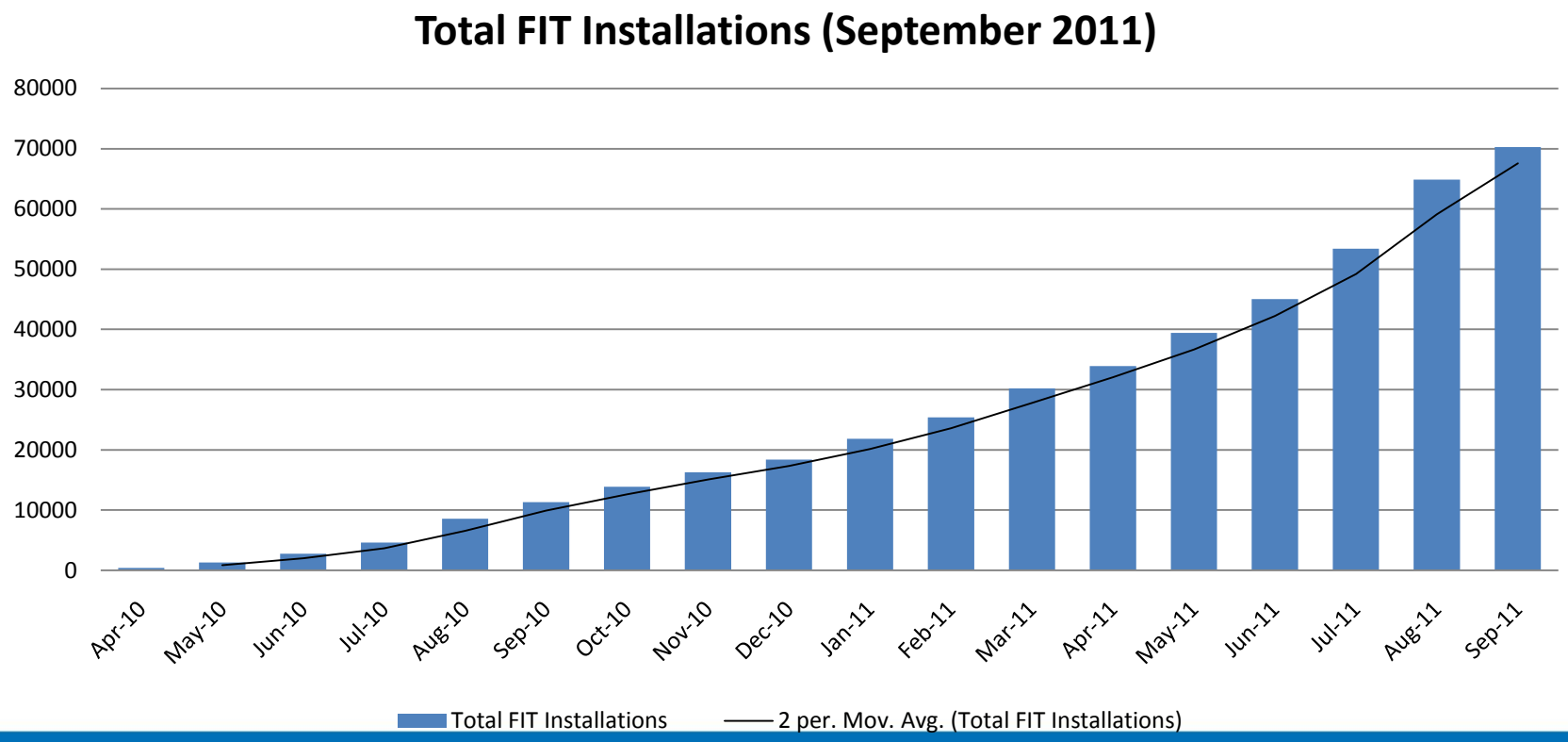
- Distributed generation is and will continue to be a key component of the energy industry
- **240% increase in DG connections (2009/10)**
- We have sought to ensure that DG does not encounter any unnecessary barriers when seeking to connect & that DNOs have an incentive to consider the role DG can play in managing the network
- However we recognise a need to better understand the challenges faced by all parties involved in the connection of DG
- The DG Forum is a key stage in the process of addressing these issues

Growth of DG to 2009/10



Growth since 2009/10

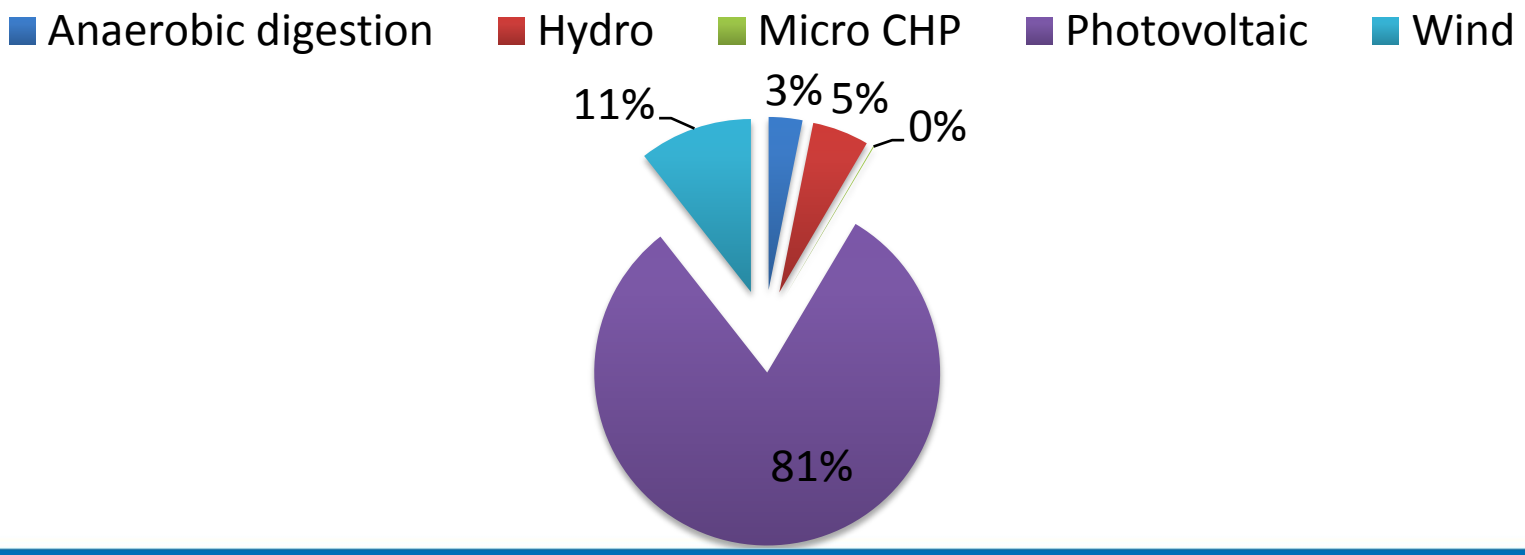
- **Feed-In Tariffs** were introduced in 1 April 2010 & provide financial incentives for small-scale generators up to 5 MW
- Awaiting data but FITS likely to have driven significant growth in connections required for DG



Impact of FITs

- Most of these installations are Photovoltaic and Wind. With South West and South East England accounting for almost 40% of the total installations.

Total Installed Capacity Breakdown of FIT Installations (by Technology Type) MWs



And going forward …..

- Government is committed to meeting its target of 15% of energy consumption sourced from renewables by 2020.
- Analysis indicates that delivering 15% renewable energy by 2020 is feasible through domestic action but will require a higher contribution from electricity demand (around 30% of electricity demand, including 2% from small-scale sources).
- It not clear how much of a contribution DG needs to make to meet these targets. However, National Grid has estimated that it would need an increase from around 9GW today to 14GW by 2020 under its latest 'Gone Green' scenario for meeting the 2020 targets.

The role of Ofgem

- Network operators have a duty to connect any customer seeking a connection on request (section 16 of the Electricity Act)

- To ensure connection is provided efficiently we have developed policies in relation to:
  - Charging for network connections & use of distribution system
  - Incentivising networks to connect DG and provide a good service to customers seeking a connection:
    - Licence conditions
    - Information provision
    - Connection standards
    - Broad measure of customer satisfaction

Charging arrangements

- Those connecting to the network pay an up-front charge commensurate with the cost of making that connection. This principle is applied to energy users as well as to energy producers.
- This is to enable the delivery of our energy needs and our targets for renewable generation at the lowest possible cost to consumers.
- In 2005 we introduced shallow-ish connection boundaries so that the connecting DG pays the full cost of sole-use connection assets. Connection charge also includes share of network reinforcement costs
  - Apportionment rules customer : network capacity or fault level
  - Projects with direct reinforcement costs in excess of £200/kW fund the required additional investment through connection charges
- Connecting DG should also pay for use of the distribution system reflecting the cost impact they cause. For all DG customers at lower voltages this results in 'credits' where they defer the need for investment

Charging methodologies

- Ofgem has set out the requirement for DNOs to have a methodology to calculate charges. This applies to Use of System and Connections.
- The Authority approves the charging methodologies(not the prices themselves)
- Historically, each DNO used individual methodologies to set charges. This changed in 2010/11:
  - Common Connection Charging Methodology implemented Oct 2010
  - For UoS - Common Distribution Charging Methodology (CDCM) was introduced on 1 April 2010 for customers at the lower distribution voltages
  - For customers at the higher voltages, we have decided to delay the introduction of generator charges (EDCM) to provide clarity on arrangements for pre-2005 generators
    - Our thinking is to grant these a time limited exemption
    - We will issue a consultation on this in early October

Price Control 2010-2015 (DPCR5)

- In preparation for current price control (2010-2015), DNOs forecast 10GW of generation will connect to their networks
- Outcome of this process enabled sufficient revenues were available to DNOs to respond to this (amongst other) requirements
- We sought to ensure no regulatory barriers preventing DG from connecting
- DG incentive retained to provide an enhanced return on reinforcement (funded through UoS)
- Intention was to encourage DNOs to undertake investment required and be proactive to responding to requests
- Designed so that revenues flex if more DG than anticipated seeks to connect

Enabling an efficient connection process

Long Term Development Statement

To enable existing and potential users of the network to carry out initial assessments in the planning stages of their project so as to identify where capacity or opportunities exist to accommodate their development project. The LTDS is a technical document, limited in scope to the extra high voltage (EHV) network

Distributed Generation Connection Guide and Information Strategy

Provision of information to customers to support them during the connection process

New Connections Standards

DNOs incentivised to deliver timely and accurate service, or forced to compensate customers

Connections Guaranteed Standards

- From 1st October a suite of new connections standards were introduced for customers seeking a connection
- Timescales have been established for key stages in the connections process:
  - Budget estimates
  - Quotations
  - Post-acceptance schedule for completion of works
  - Completion of works
  - Energisation
- Failure to deliver to timescale results in compensation paid direct to customer
- Failure to meet standards on 90% of all cases results in licence breach
- DNOs are required to report on a quarterly basis on their performance

Focus on customer service

- Broad measure of customer satisfaction:
  - Survey of customer service, incl. customers seeking a connection
  - Complaint handling
  - Stakeholder engagement

- +/-1% of annual revenue at stake depending on performance

- Stakeholder engagement element intended to reward networks to understand and respond to needs of stakeholders – up to £24m is available across the DNOs over the next 3 years

Aware that issues remain

Customers complaints reflecting issues with:

- Access to detailed information
- Transparency of costs
- The application process
- The quality of quotations and budget estimates
- The need for statement of works, design and feasibility studies.
- A lack of investment in the network
- Inconsistent application of technical standards and charging methodologies
- DNO approach to customer service
- Interaction with the transmission network (particularly in Scotland)

(not intended to be a definitive list)

Rationale for the Forum

- Complex issues – require input from a range of different stakeholders
- We want the DG forum to provide a platform to share an understanding of the issues associated with connecting and using the network.
- To provide a framework for ongoing engagement between DNOs and DG customers
- To provide a framework for Ofgem to maintain engagement with stakeholders in order to inform ongoing review of policy

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And finally…

We would appreciate if you could fill out the *feedback form* at the end of the forum.


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