



# Further thinking on low carbon volume drivers

*Fall 2012*

# Building all the work undertaken to date

- Low carbon technology is generally taken to encompass heat pumps, electric vehicles and distributed “green” generation.
- The level of take up is uncertain and its characteristics mean that it may have a significant effect on the system.
- Ofgem is minded to adopt a volume driver to address this uncertainty, and has set out potential options in its RIIO-ED1 strategy consultation.
- Ofgem has four questions to answer in how to fund the accommodation of low carbon technology:
  - Should an element of fixed ex ante allowance be given?
  - What should the revenue driver be?
  - Should the baseline assume a certain amount of uptake (and flex down if less happens)?
  - How should a reopener mechanism be designed to mitigate extreme outcomes?
- We have considered the revenue driver in isolation because:
  - This makes it easier to see its true characteristics
  - Ofgem has set out a firm view on the load related reopener which settles the debate on the other choice which matters the most to the volume driver

# We have evaluated three revenue driver options in detail

Option 1:  
£ per MW

1. Customers will decide what to install where when

2. Then they will start using it how they want

3. This will lead to megawatts (MW) of load on the network

Option 2:  
£ per problem to solve

4. Constraints will need to be addressed

5. Using appropriate solutions

6. Which could well involve installing assets

Option 3:  
£ per intervention

In practice there is little difference between the first two options.  
“£ per problem to solve” is closer to the engineering reality ; “£ per MW” is simpler to implement in a transparent manner.  
“£ per intervention” is closer to “cost plus”

Criteria	Northern Powergrid / ENWL View
1. Encourages DNOs to seek the most efficient long term solution	“£ per intervention” lags the other two here.
2. Interacts with the other relevant funding mechanisms in a clear and transparent manner	“£ per intervention” lags the other two here.
3. The unit cost can be estimated up front	Data protection probably makes “£ per MW” simplest as it only needs DNO level information
4. Mirrors customer demands of the network, and the associated costs	All would need to be modelled, probably easiest with “£ per MW”
5. The volume driver can be clearly measured	No clear winner; all have weaknesses