



Making a positive difference
for energy consumers

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Dear Community Energy Team,

Ofgem's response to DECC's call for evidence on community energy

We welcome the opportunity to respond to DECC's call for evidence on community energy (CE). As the gas and electricity market regulator, our principal objective is to protect the interests of existing and future gas and electricity consumers through promoting competition and regulating monopolies. The Authority¹ has a duty to promote a secure, reliable and efficient network, as well as contribute to the achievement of sustainable development. The latter duty underlines Ofgem's important and developing role in shaping the future of gas and electricity industries in a sustainable manner.

In your call for evidence, community energy is taken to be "*community projects or initiatives focused on reducing, managing, generating or purchasing energy. This includes both communities of place (communities within a defined local area) and communities of interest (non-geographical areas united by shared interests, such as workplaces or faith groups).*"

Ofgem has an interest in CE because it could have the potential to increase consumer engagement with energy, which in turn will encourage competition and deliver value for money. Among other benefits, we are aware that CE could potentially play a role at a local level in the transition to a low carbon economy and could contribute to diversifying the energy sector. Because of its interactions with the interests of both current and future consumers, we are reviewing the links between potential CE initiatives and areas of work under Ofgem's remit. We want to determine where barriers or opportunities for this sector may exist and to understand any potential wider impacts on consumers (eg costs to consumer bills) of the uptake of CE projects. We encourage you to consider this when putting together your community energy strategy and will continue to engage with you on this basis.

Our Work:

Ofgem's interactions with the community energy sector fall into two distinct areas:

¹ Ofgem is governed by the Gas and Electricity Markets Authority (GEMA), which consists of non-executive and executive members and a non-executive chair.

- Our role as the regulator of energy networks and markets in Great Britain. An integral part of this is in setting price controls for network companies, both Transmission Operators (TOs) and Distribution Network Operators (DNOs).
- Our role in administering government energy programmes that are likely to interact with the CE sector, such as the FITs scheme, through our programme delivery arm Ofgem E-Serve.

Distribution and Connection Arrangements

One of the key interactions between CE projects and areas within Ofgem's remit is connection to the electricity distribution network. Generation CE projects are a form of distributed generation; generation that connects directly to the distribution network, rather than the transmission network. At a recent meeting of the Distributed Generation (DG) Forum a number of issues were raised by DG developers relating to access to information, the application process, transparency of costs and customer service. A jointly agreed work plan between Forum members was proposed as a means of monitoring the relationship and provision of services between DNOs and developers. The next electricity distribution price control (RIIO-ED1) is due to begin on 1 April 2015. This contains measures which should help to improve relationships between DG schemes and DNOs (eg a new Incentive on Connections Engagement that will financially penalise networks that do not proactively engage with DG customers and take steps to improve their service provision). We will continue to investigate this area, considering the impact on CE projects.

Smart Grids

A smart grid provides the potential for a more flexible and integrated electricity network, as well as aiding the transition to a low carbon economy. There may be opportunities for communities to supply smart grid products to their relevant Distribution Network Operator (DNO). The DECC/Ofgem Smart Grids Forum, as mentioned in the call for evidence, is supporting the transition to a secure, safe, low carbon, affordable energy system. Through this, Ofgem is looking at regulatory and commercial barriers to smart grids. Through chairing WS6 of the forum, we are looking at examining the regulatory framework for smart grids in order to ensure that potential benefits are realised, as well as considering the potential for enablers to the development of CE projects.

Smarter Markets

As well as our joint work with DECC, we are also undertaking work as part of our Smarter Markets Programme that considers how current market arrangements might constrain the system-wide development of demand-side response (DSR). The potential for DSR could provide a new area for CE engagement in the electricity network and we are keen to further understand how communities might engage and participate in this market. The challenges of demand side response, as outlined in our recent consultation 'Creating the right environment for demand-side response'², also apply to CE projects.

Environmental Schemes

Ofgem administers several government-led schemes and has a statutory delivery role in others. On 25 March 2013 a Memorandum of Understanding (MoU) between DECC and Ofgem was signed. This document establishes a framework for liaison between the Authority and the Secretary of State in connection with such schemes. The MoU describes the general working arrangements for communication and co-ordination, with specific details being addressed on a scheme by scheme basis.

² Creating the right environment for demand-side response

http://www.ofgem.gov.uk/Markets/sm/strategy/dsr/Documents1/20130430_Creating%20the%20right%20environment%20for%20demand-side%20response.pdf

For the Feed-in Tariffs (FITs) scheme and the Renewable Heat Incentive (RHI) schemes, the tariff rates are intended to be generous enough to facilitate financing and mitigate risk in order to bring forward projects such as those proposed as part of CE schemes (as well as for households and businesses). Extra benefits are also available in the FITs scheme for some community organisations and schools. Our work in this area that relates to CE involves ensuring that our (and suppliers'/FITs Licensees') administrative processes, for accreditation and registration of installations, are simple and transparent for those participating in the scheme.

The following areas of Ofgem's work also have some degree of interaction with CE:

- *Electricity supplier 'lite licence'* – as highlighted in your call for evidence, we are developing policy for an electricity supply licence for smaller suppliers. We are keen to further understand the potential for different types of community projects to hold such a licence.
- *Third party intermediaries (TPIs)* – TPIs are organisations who intermediate between energy suppliers and consumers, and provide a wide range of services to assist consumers with their energy needs. We are currently reviewing the TPI market in its entirety and considering potential regulatory and non regulatory options. We are keen to ensure that consumers are treated fairly and are protected in their interactions with TPIs, as well as gaining a better understanding of the potential role of TPIs in CE initiatives.
- *Retail Market Review (RMR)* - we have proposed to facilitate collective switching processes in a way that will still protect consumers and achieve the RMR objectives of a simpler, clearer and fairer retail market. As such, we have proposed that collective switching (which meets certain criteria)³ is exempt from our proposed tariff restrictions, recognising the important role this may play in engaging consumers.

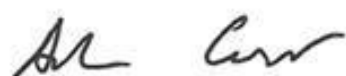
We are also assessing if any specific consideration is given to community initiatives or groups under our policies and whether this is something we may facilitate in the future.

Continued engagement:

We will continue to progress our thinking in the areas set out above, in particular looking at the relationship between CE projects and distribution networks, internally and via our work with the joint DECC/Ofgem Smart Grids Forum and other industry fora. We will continue to assess the potential barriers to CE and continue to engage actively with DECC where there are areas which fall under Ofgem's remit and areas that impact upon consumers.

We welcome your engagement with us and other stakeholders, and look forward to further discussions in the coming months. If you have any questions about this response in the meantime, please contact Natasha Smith, natasha.smith@ofgem.gov.uk.

Yours faithfully,



Adam Cooper
Associate Partner, Sustainable Energy Policy

³ Retail Market Review – Final Domestic Proposals, see page 64 for criteria
<http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/The%20Retail%20Market%20Review%20-%20Final%20domestic%20proposals.pdf>