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Dear Sir/Madam,

RE: Consultation on findings of Ofgem review of the electricity connections market

The FSB welcomes Ofgem's review of the market for new connections to the electricity distribution network. We believe that there are areas of this market that discourage the participation of small businesses, especially those hoping to provide competition through the development and direct sale of micro-generation energy.

We believe this is an area that has great potential for addressing some of the flaws in the energy market. However, we believe that small business plans to deploy micro-generation and renewable technologies are being frustrated by a number of difficulties connecting to the grid:

- There is a lack of consumer focus by distribution network operators (DNOs), with consequential lack of quality service for small businesses wanting to connect to the grid. It is a bureaucratic and time-consuming process.
- There is a lack of transparency of costs to small businesses connecting to the grid. Many of these costs are non-contestable and there is little evidence to show how they are calculated by DNOs. For works that *are* contestable – carried out instead by a private contractor – these costs could be significantly lower than those quoted initially by DNOs, especially if reliance on DNO services was reduced. We, therefore, welcome Ofgem proposals to require DNOs to reduce the extent to which competitors depend on them for essential services.
- A small business has to pay the costs of connection up front, with no opportunity to phase the payments. We would like Ofgem to look at the potential for these costs to be paid over the life of an asset.

We would like to see small businesses given an increased opportunity to supply energy to the grid, but also the opportunity to supply directly to customers locally. As it stands, a small energy generator may only make £0.04p kW/h exporting locally generated energy to the grid.

However, by selling directly to a local smart grid (e.g. adjacent village/housing estate) at market rates they may make £0.11 kW/h. This would transform the viability of local energy generation without the need for public subsidy or green levy on energy bills, encouraging small businesses to invest in peak capacity beyond their own consumption. It would also provide a disruptive influence on the market overall.



There are a number of hurdles that need to be addressed in order to realise this micro-generation revolution:

1. Regulations restricting the direct sale of power from any power station below 50MW would need to be amended.
2. Ofgem would need to establish a light touch regulatory regime for sub-50MW retailers who would supply to local grids (we have already opened a dialogue with Ofgem about this).
3. There would need to be a separate category of light touch licence for community or business energy retailers selling to a defined local area with a limited number of customers.

Making it easier for small businesses to generate and sell their own energy will benefit our economy and establish a much needed boost to an otherwise stale energy market.

I trust that you will find these comments helpful and that they will be taken into consideration.

Yours sincerely,

Allen Creedy
Chairman of the Environment, Energy & Water Policy Unit
Federation of Small Businesses