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value for all customers*

National Grid Electricity
Transmission plc,
Scottish Hydro-Electric
Transmission Limited, SP
Transmission Limited, users of
the electricity transmission
system, consumer groups and
other interested parties

Our Ref: NET/ETP/GEN/4
Direct Dial: 020 7901 7050
Email: Robert.hull@ofgem.gov.uk

Date: 26 November 2007

Dear Colleague,

Conclusions in respect of the consultation on the discount for small transmission connected generators from 1 April 2008 (SLC) C13 (“Adjustment to use of system charges (small generators)” and Notice under Section 11A of the Electricity Act 1989.

On 16 October 2007 Ofgem issued an open letter consultation¹ proposing to remove the first time limit of 1 April 2008 from SLC C13 so that, at 1 April 2008, the small generator discount continues to be based on 25 per cent of the total residual Transmission Network Use of System (TNUoS) tariff. The consultation also invited views on our initial view of the approach to giving effect to this change by the deletion of paragraph 5 of SLC C13 in accordance with the powers contained in Section 11A of the Electricity Act 1989.

The reasons for the proposed modification are set out in the consultation.

We received twelve responses to the consultation which are available on the Ofgem website (www.ofgem.gov.uk). Ten respondents were in favour of the proposal to remove the time limit of 1 April 2008 from the SLC C13 and for the proposed licence modification to give effect to this change. Two respondents were against Ofgem's proposal, on the basis that the small generation discount represents a cross subsidy or windfall in favour of the qualifying generators and hence distorts competition. One respondent raised the alternative of 132kV connected generator receiving TNUoS demand credit less the equivalent avoided Distribution Network Operator (DNO) connection charge.

In developing the original proposals for the small generation discount during the development of BETTA, Ofgem/BERR considered these issues and acknowledged that an enduring solution would be required to ensure that charging arrangements across distribution and transmission networks were cost reflective and non-discriminatory. It was recognised, however, that such consistency could only be delivered through a review of transmission charging arrangements between transmission and distribution connected generators. The small generation discount was implemented as a proportionate interim measure. As we pointed in our consultation document, an enduring charging arrangement for distributed generation is yet to be developed. In the meantime, it remains the view of Ofgem

¹ www.ofgem.gov.uk, “Consultation on the discount for small transmission connected generators from 1 April 2008”, document reference number 245/07.

that the interim discount provides a transparent and proportionate response to the disparity faced by sub-100MW 132kV connected generators in Scotland.

Enduring solution

In terms of the enduring charging arrangements for distributed generation, NGET plc in their response to the consultation confirmed its intention to review the cost reflectivity of the transmission charging arrangements for distributed generation with industry with a view to implementing a solution on an enduring basis prior to 31 May 2009. Separately, NGET have provided Ofgem with a high level timetable detailing the process for developing, considering and implementing an enduring solution through the existing governance arrangements. We are satisfied that such a process is realistically achievable before 31 May 2009.

Conclusion and way forward

Our intent is now to proceed on the basis of the proposals set out in the October 2007 consultation.

The appendix to this letter sets out the notice, required by section 11A of the Electricity Act, of the Authority's intention to make the proposed modification.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Robert Hull', with a horizontal line underneath.

Robert Hull
Director, Transmission

Notice under section 11A(3) of the Electricity Act 1989

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to section 11A(3) of the Electricity Act 1989 (the "Act") as follows:

1. The Authority proposes to modify standard condition C13 (Adjustments to use of system charges (small generators)) ("SLC C13") of the electricity transmission licence (the "Licence"), treated as granted to all electricity transmission licensees (the "Licensee") under section 6(1)(b) of the Act.
2. The Authority proposes to modify SLC C13 of the Licence by deleting paragraph 5, to extend the date the Licensee must discount use of system charges for small generators, in the manner set out in the schedule to this Notice.
3. The effect of the proposed licence modification ensures that the use of system discount for small generators remain in place until 31 May 2009, while enduring arrangements are being developed.
4. The reasons why the Authority proposes to make the licence modification are set out in the consultation letter issued by Ofgem on 16 October 2007 entitled "Consultation on the discount for small transmission connected generators from 1 April 2008"² and a further letter dated 26 November 2007 entitled "Conclusions in respect of the consultation on the discount for transmission connected generators from 1 April 2008". Copies of these documents are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003) or from the Ofgem website.
4. Any representations or objections to the proposed licence modification may be made on or before 4 January 2008 and should be sent to Anthony Mungall, Ofgem, 70 West Regent Street, Glasgow G2 2QZ or by e-mail to anthony.mungall@ofgem.gov.uk.

² [http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/TADG/Documents1/Discount for small transmission connected generators.pdf](http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/TADG/Documents1/Discount%20for%20small%20transmission%20connected%20generators.pdf)

Robert Hull

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Director – Transmission, Networks

Authorised on behalf of the Authority

26 November 2007

Schedule

Condition C13. Adjustments to use of system charges (small generators)

1. When calculating use of system charges (other than charges relating to the provision of balancing services) to eligible generators the licensee shall set a charge in conformance with the use of system charging methodology in accordance with standard condition C4 (Charges for use of system) less a designated sum.
2. When calculating use of system charges (other than charges relating to the provision of balancing services) to customers who are taking demand from the GB transmission system the licensee shall set charges in conformance with the use of system charging methodology in accordance with standard condition C4 (Charges for use of system) plus a unit amount (to be added to all such charges on a non-discriminatory and non-locational basis) such that the net effect of this condition on total sums recovered by the licensee during the period in which this condition is in effect is zero. The licensee shall ensure that the net sums recovered in any given year are as far as practicable zero.
3. The licensee shall publish sufficient information in a timely manner such that all parties whose use of system charges are or may be adjusted in accordance with this condition are able to make a reasonable estimate of how use of system charges have been affected by the provision contained within this condition. To the extent that net sums recovered in any given year might not be equal to zero, the licensee shall also publish sufficient information to enable affected parties to make a reasonable estimate of how any over or under-recovery in the current year made pursuant to this condition will affect adjustments to charges in the following year.
4. The Authority shall be entitled to issue a direction pursuant to this condition at any time stating that, with effect from 1 April immediately following the issuing by the Authority of such a direction, the designated sum shall be equal to zero.

~~5. In the absence of a direction being issued by the Authority pursuant to paragraph 4 above, the designated sum shall be set equal to zero from 1 April 2008 until 31 May 2009.~~

5.6. This condition shall cease to have effect on 31 May 2009.

6.7. For the purposes of this condition:

“eligible generator” means a generating station which:

- (a) is liable for generation transmission network use of system charges (or its equivalent) under the use of system charging methodology approved by the Authority in accordance with standard condition C4 (Charges for use of system); and
- (b) is connected to the GB transmission system at a voltage of 132 kilovolts; and
- (c) would not, on the basis of its maximum generating capacity, be liable for generation transmission network use of system charges (or its equivalent) if it were connected to the distribution system of a licensed distributor rather than to the GB transmission system.

“designated sum” means such sum as shall be directed by the Authority as soon as practicable after the determination of an approved use of system charging methodology in accordance with standard condition C4 (Charges for use of system).

