Dear colleague,

**Consultation on proposed licence modification to Standard Licence Condition C13 of the electricity transmission licence (Adjustment to use of system charges (small generators)); and Notice under Section 11A of the Electricity Act 1989**

This letter sets out our proposal to extend the small generator discount set out in Standard Licence Condition (SLC) C13 (Adjustment to use of system charges (small generators)) (SLC C13) of the electricity transmission licence (the Licence). We propose to modify SLC C13 by amending the expiry date of this condition from 31 March 2011 to 31 March 2013. This letter also constitutes Notice under Section 11A of the Electricity Act 1989 (the Act).

SLC C13 was introduced into the Licence at the implementation of the British Electricity Trading and Transmission Arrangements (BETTA)\(^1\) on 1 April 2005. The condition requires National Grid Electricity Transmission plc (NGET) to discount the use of system charges for an “eligible generator”\(^2\) by a designated amount and to recover the revenue shortfall from demand users non-locationally based on peak demand.

The discount is intended to ensure an equivalent treatment of small (sub-100MW) 132kV generators under the Transmission Network Use of System (TNUoS) charging rules applied by NGET. Offshore, generation projects connected to the National Electricity Transmission System (NETS)\(^3\) at 132kV are defined as transmission connected and will be covered by the small generator discount.

**Our October 2010 consultation**

On 18 October 2010 we issued an open letter consultation\(^4\) (the October consultation) that set out possible options, and identified our preferred approach, concerning arrangements surrounding the small generator discount provided for under SLC C13.

In our October consultation we highlighted that NGET has written to Ofgem informing us of its view that it is no longer possible to implement an enduring transmission charging arrangement solution from 1 April 2011, when SLC C13 ceases to have effect.

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\(^1\) [http://www.ofgem.gov.uk/Networks/Trans/Archive/ElecTrans/BETTA/Pages/BETTA.aspx](http://www.ofgem.gov.uk/Networks/Trans/Archive/ElecTrans/BETTA/Pages/BETTA.aspx)

\(^2\) “eligible generator” has the meaning given in SLC C13 of the Licence, as attached in Appendix 1 to this letter.

\(^3\) The NETS (currently split into three transmission licence areas which are defined as England and Wales, South of Scotland and North of Scotland) will be extended into offshore waters at a point where assets are treated as part of the NETS.

In the October consultation we set out that we consider that a change is required to the existing provisions under SLC C13 as a result of the launch of Project TransmiT and sought views on our proposals to:

- remove the current expiry date of 31 March 2011 and replace it with an extended expiry date so that, at 1 April 2011 and until 31 March 2013, the small generator discount will continue to be based on 25 per cent of the total residual TNUoS tariff
- give effect to this change by amending paragraph 5 of SLC C13 in accordance with the powers contained in Section 11A of the Act.

We also requested views on whether it is appropriate to retain a best endeavours obligation on NGET to develop and implement use of system charges for eligible generators under the use of system charging methodology. However, we recognised in the October consultation that the continuation of the small generator discount is dependent on conclusions that may flow from Project TransmiT.

Responses to the October consultation

We received 11 responses to the October consultation which are available on the Ofgem website. We are grateful to respondents for providing their comments on the options proposed and we have considered these in reaching our final views.

After considering these responses, our view is that it is appropriate to bring forward proposed licence modifications to extend the duration of SLC C13 and to clarify the obligations on NGET in respect of developing and implementing enduring use of system charging arrangements for eligible generators under the use of system charging methodology. To that end, attached at Appendix 1 is the collective licence modification notice (CLM) under Section 11A of the Act that has been issued today.

The following sections summarise the views received in relation to the proposals raised in the October consultation namely:

- the period of extension to 31 March 2013
- retaining the current value of the designated sum
- removal of the best endeavours obligation on NGET.

Extension of expiry date

Of the 11 respondents who provided comments all were in favour of extending the existing expiry date. However, two respondents commented that they did not agree with the principle of the small generator discount on the basis that generators connected to and using the electricity transmission network should pay for such use. Despite these views both respondents were content to offer their support for an extension to the expiry period on the basis that extension, in the context of Project TransmiT, is reasonable to ensure investment stability in the short term and because the Authority has the ability to reset the discount for the following year to zero if the discount ceases to be appropriate.

One respondent agreed with the proposal to extend the existing expiry date and considered that these arrangements should remain until the advent of SmartGrids and the opportunity to introduce more sophisticated charging across transmission and distribution can be

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5 More information on Project TransmiT can be found at: http://www.ofgem.gov.uk/Networks/Trans/PT/Pages/ProjectTransmiT.aspx
6 Contained in SLC C13, paragraph 6.
realised. This respondent considered that the current SLC C13 arrangements should stay in place for ten years or until the next fundamental review of transmission arrangements.

Five respondents supported an extension to the current expiry date of 31 March 2011 to 31 March 2013, or until a satisfactory enduring solution can be found.

Three respondents commented that given the importance of certainty in charging arrangements in relation to promoting investment the revised expiry date seems sensible.

One respondent stated its view that removal or erosion of embedded benefits in Scotland (and across the UK) would undermine the principle that if a generator uses a service it is vital that the generator receives value from that payment. Removal of the embedded benefits would, in this respondent’s view, go against this principle and work against the stated aim of Ofgem of ensuring value for customers.

Designated sum

Six respondents commented on whether the value of the designated sum should be changed. All of these respondents supported retaining the current value of the designated sum. One respondent commented that, although the current level is somewhat arbitrary, it does not believe that an alternative could be found if it was decided to review its calculation.

Best endeavours obligation

Of the seven respondents that commented on whether to retain the best endeavours obligation in NGET’s licence five supported its removal while two respondents were of the view that it should remain.

One respondent, that was supportive of removing the best endeavours obligation, considered that the wording of the licence condition and the work that has been done in this area by NGET are different. This respondent considered that NGET has responded to this condition by reviewing the charging arrangements for generators connected to the distribution network (Distributed Generation, or “DG”) in general.

Two respondents considered that this obligation is no longer required as a result of the Code Governance Review (CGR) and the introduction of the Significant Code Review. One of these respondents also added that as governance of the charging methodologies has been moved into the Connection and Use of System Code (CUSC), NGET is not the only party that can propose changes to the use of system charging methodology.

One respondent considered that the best endeavours obligation should be allowed to lapse as NGET is under a continuous duty to keep its charging methodology under review and this respondent was not clear why this part of the methodology has been singled out.

One respondent commented that as Ofgem has responsibility for the development of Project TransmiT outcomes it is not appropriate to continue to place an obligation on NGET via licence conditions to develop and implement changes and it is therefore appropriate to remove the best endeavours obligation.

A further respondent agreed that the best endeavours obligation should be removed as it considers an enduring charging arrangement that deals with the issues of Scottish renewables connected to the transmission network and embedded benefits generally is not something that NGET alone can resolve. In this respondent’s view, distribution companies and SmartGrids will need to be involved.

Two respondents considered that the retention of the best endeavours obligation is appropriate. One commented that the timescales of Project TransmiT to provide
recommendations in summer 2011 implies that it might be possible for a solution to these issues to be understood and therefore potentially implemented before 31 March 2013 and therefore an obligation on NGET to implement an enduring solution does not seem unreasonable.

General

A number of respondents provided detailed comments on, amongst other things, the future of charging arrangements for DG. In particular, four respondents commented that the treatment of DG embedded benefits should be progressed within the scope of Project TransmiT with one adding that it hoped that the timescales of the project would allow for resolution of the issue before 31 March 2013.

Ofgem’s conclusions

Extension of expiry date

We note the support for the proposed period of the extension to 31 March 2013.

We therefore remain of the view that it is appropriate and pragmatic to extend the expiry date for the small generator discount to 31 March 2013. This change is reflected in the Schedule to the CLM attached as Appendix 1.

We note one respondent’s view that the current arrangement should remain until the advent of SmartGrids and the opportunity to introduce more sophisticated charging across transmission and distribution can be introduced (approximately for ten years). As set out above, Ofgem has launched Project TransmiT that will specifically look at the treatment of charging arrangements in respect of the transmission network. We do not, therefore, consider it appropriate to extend the existing arrangements for this proposed period of time.

Designated sum

We note the support for the retention of the value of the designated sum.

We therefore remain of the view that it is appropriate to retain the existing value of the designated sum.

Best endeavours obligation

In light of respondents’ views we propose to amend SLC C13 to remove the requirement on NGET to use its best endeavours to develop and implement use of system charges for eligible generators under the use of system charging methodology. This change is reflected in the Schedule to the CLM attached as Appendix 1.

As set out in the October consultation, we have established in further discussions and through further correspondence with NGET that, where required, NGET will be providing resource, analysis and information in support of Project TransmiT.

We also note the comment made by two respondents that the CGR and the inclusion of the charging methodologies into the CUSC will allow other parties to propose changes.

We note the comment by one respondent that NGET is under a continuous duty to keep its charging methodology under review and it’s not clear why this part of the methodology has been singled out. In March 20098, following consultation with industry, this obligation was

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introduced into NGET’s licence as we considered NGET to have a unique role and ability to drive process and the timely development of an appropriate solution in this area. As set out above, these arrangements will now be considered under Project TransmiT, an independent and open review established by Ofgem.

In light of these views, we are of the opinion that it is appropriate to remove the best endeavours obligation contained in paragraph 6 of SLC C13.

General

We note comments made by respondents on, amongst other things, the future of charging arrangements for generators connected to the distribution network and issues being considered in respect of Project TransmiT. We have not, in this letter, provided responses to these wider issues. We intend that these wider issues will be included in our discussions under Project TransmiT. We have now received responses to our call for evidence which are available on our website\(^9\). It is our intention to review these and consult on options identified in light of evidence gathered (including academic reports) in spring 2011.

We note that one outcome of the launch of Project TransmiT is that NGET placed work on transmission charging methodology change proposal GB ECM-23\(^\text{10}\) (Transmission Arrangements for Distributed Generation) on hold. We expect new modification proposals and recommendations on the way forward on GB-ECM-23 to be raised to reflect the outcome of this review process under Project TransmiT noting that the Authority has the ability to reset the discount for the following year to zero if the discount ceases to be appropriate.

Next steps

After considering the views of respondents we have today issued a CLM Notice consulting on the proposed changes (see Appendix 1). In accordance with the CLM process, relevant licence holders have 28 days to raise any objections to the proposed changes. Subject to responses to the CLM, we intend to direct the proposed modifications in January next year.

Yours faithfully,

\[\text{[Signature]}\]

Stuart Cook

Senior Partner, Smarter Grids and Governance


\(^\text{10}\) [http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/](http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/)
Appendix 1

To: all holders of an electricity transmission licence

NOTICE OF PROPOSED MODIFICATION OF STANDARD CONDITION C13 'ADJUSTMENTS TO USE OF SYSTEM CHARGES (SMALL GENERATORS)' OF ELECTRICITY TRANSMISSION LICENCES UNDER SECTION 11A OF THE ELECTRICITY ACT 1989

1. The Authority proposes to modify standard licence 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 under section 6(1)(b) of the Act.

2. The Authority proposes to modify SLC C13 of the Licence by amending paragraph 5 to extend the date National Grid Electricity Transmission plc ("NGET") must discount use of system charges for eligible generators\(^\text{11}\) and remove paragraph 6 that requires NGET to use its best endeavours to implement enduring transmission charging arrangements by 1 April 2011.

3. The effect of the proposed modification will be to retain the use of system discount to eligible generators until 31 March 2013. The proposed modifications also remove the requirement on NGET to use its best endeavours to develop and implement use of system charges for eligible generators under the use of system charging methodology.

4. The reasons why the Authority proposes to make this licence modification are set out in the open letter consultation 'Consultation on the discount for small transmission connected generators from 31 March 2011'\(^\text{12}\). In summary, we are proposing these amendments to ensure that eligible generators continue to receive the use of system discount provided under SLC C13. It is our intention that the treatment of eligible generators will be considered under Project TransmiT, our independent and comprehensive review of transmission charging arrangements and associated connection agreements. We also propose to remove the best endeavours obligation on NGET to develop and implement use of system charges for eligible generators under the use of system charging methodology. We consider that as the treatment of eligible generators will be considered under Project TransmiT it is no longer appropriate for this obligation to be included in the Licence.

5. The relevant licence holder for the purposes of this Notice is NGET.

6. A pro forma that NGET may wish to use in order to register a statutory objection is appended to this notice.

7. A copy of the proposed modification and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).

8. Any representations or objection to the proposed licence modifications may be made on or before 17 January 2011 to:

   Roberta Fernie, Office of Gas and Electricity Markets, 107 West Regent Street, Glasgow, G2 2BA roberta.fernie@ofgem.gov.uk

\(^\text{11}\) "eligible generator" is defined in paragraph 7 of SLC C13 as set out in the Schedule to this Notice.

9. All responses will normally be published on Ofgem’s website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic format so they can be easily placed on the Ofgem website.

10. Subject to the outcome of this statutory consultation and consideration of respondents’ views, it is the intention of the Authority to direct the proposed modifications to the standard conditions of the electricity transmission licences to have effect on and from 21 January 2011.

11. If you wish to discuss any aspect of this Notice, please contact Roberta Fernie on the details provided above.

Stuart Cook, Partner, Smarter Grids and Governance
Duly authorised on behalf of the Gas and Electricity Markets Authority

16 December 2010
NOTICE OF STATUTORY OBJECTION

Proposed Modification of Standard Condition C13 of the electricity transmission licence

In response to the statutory notice dated 16 December 2010 in respect of the above proposed modification, this notice constitutes a statutory objection to that proposal on behalf of:\n
.................................................................................................................................................................................................................................................................................................................. I confirm that I am duly authorised to give this notice on behalf of the above named company or each of the above named companies.

Signed\(^{14}\): ..........................................................

Date: ..........................................................................

\(^{13}\) Please state full name of each relevant licence holder making the objection

\(^{14}\) Please include address for acknowledgment, preferably including an email address
SCHEDULE

PROPOSED MODIFICATION OF THE STANDARD CONDITIONS OF THE ELECTRICITY TRANSMISSION LICENCE

Standard Condition C13 of electricity transmission licence is proposed to be modified in the manner set out in this schedule. The proposed insertions are shown underlined and proposed deletions are shown crossed-through.

**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 national electricity 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 charged for and recovered by the licensee in respect of the period in which this condition is in effect is zero. The licensee shall ensure that the net sums recovered for 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 for 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 respect of that year made pursuant to this condition will affect adjustments to charges for 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. This condition shall have effect for the Licensee’s charges for the period ending on 31 March 2011.

6. The Licensee shall use its best endeavours to develop and implement use of system charges for eligible generators under the use of system charging methodology, approved by the Authority, by 1 April 2011.

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 national electricity 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 national electricity 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).