

Anthony Mungall  
Ofgem  
107 West Regent Street  
Glasgow  
G2 2BA

1<sup>st</sup> December 2010

Dear Anthony,

RE: Consultation on the small generator discount for small transmission connected generators from March 2011.

The CHPA welcomes Ofgem's consultation on extending the small generator discount until March 2013. The CHPA believes that the option (a.i), *extending the licence condition expiry date by an agreed period at the current vale of the designated sum or amount*, should be adopted. This letter sets out the key reasoning behind this argument. The CHPA submitted a joint letter (18<sup>th</sup> October) to Ofgem with the REA and CLA on the importance of embedded benefits and I enclose this with our response to provide greater detail as to the reasoning behind our position.

The small generator discount is an important element for addressing the discrepancy between what is treated as transmission and distribution lines in different parts of the UK. The embedded benefits policy, which creates the need for the small generator discount in Scotland, reflects the fact that non-transmission connected generation does not use transmission lines and, therefore, should not pay for the use of these lines. Fundamentally, for a generator to pay for a service it is vital (and fair) that the generator receives value from that payment. A removal, or erosion, of embedded benefits in Scotland (and across the UK) would undermine this principle and, work against the stated aim of Ofgem of ensuring value for customers.

The CHPA is very willing to engage in a constructive debate with National Grid, Ofgem and other stakeholders to find an enduring solution between now and March 2013. Project TransmiT is a useful vehicle for the development of this policy. As part of this work, and indeed the wider work of TransmiT, it is important for the regulator to consider the aims of Government in driving up decentralised energy and the important role this can play in facilitating competition, controlling costs and providing much needed local balancing services to address the challenges of the future energy mix.

It is appropriate to extend the 'best endeavours' requirement on National Grid to find an enduring solution to this issue. As the regulator, however, it is vital that Ofgem employs its objective scrutiny of any proposal as National Grid's primary obligation is, rightly, to its shareholders not embedded generators. To ensure customer value and system sustainability, it is vital that the proposals do not penalise embedded generators. The CHPA is concerned that the original proposals, set out by National Grid would harm embedded generation and subsequent sustainability benefits would be lost.

I would be more than happy to meet with you to discuss the matter in detail.

Yours sincerely,



Dr Tim Rotheray,  
Policy Manager

**Combined Heat & Power Association**  
Grosvenor Gardens House  
35/37 Grosvenor Gardens  
London SW1W 0BS  
Tel +44(0)20 7828 4077  
Fax +44(0)20 7828 0310  
info@chpa.co.uk  
www.chpa.co.uk



**chpa**

**Bringing Energy Together**

Combined Heat & Power  
Sustainable Energy Services  
District Heating & Cooling

**President**  
Lord Whitty

**Vice Presidents**  
Andrew Stunell MP  
Nick Hurd MP  
Dr Alan Whitehead MP  
Fiona Hall MEP  
Anthony Bramley  
Peter Jones OBE  
Phillip Piddington  
David Sigsworth  
Robert Tudway  
Dr Anthony White MBE

**Chairman**  
Dominic Bowers

**Director**  
Graham Meeks