

Anthony Mungall  
Ofgem  
107 West Regent Street  
Glasgow  
G2 2BA

29 November 2010

Dear Anthony,

### **Consultation on the discount for small transmission connected generators from 31 March 2011**

EDF Energy is one of the UK's largest energy companies; we provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the opportunity to respond to this consultation. The key points of our response are as follows:

- In principle we do not support an extension of the existing small generators' discount.
- However, Ofgem's minded to position to extend the period of the discount to 31 March 2013, on the basis that the Authority can reset the discount to zero, by a direction at any time which comes into effect from the following 1 April, is reasonable.
- We recognise that the issues are complex, particularly with respect to the treatment of distribution connected generation in England and Wales.
- We agree that this issue should be progressed within the scope of Project TransmiT and would hope that the timescales of TransmiT would allow for resolution of the issue well before 31 March 2013.

We understand that the small generator's discount was put in place to account for the disparity between two similar generators, one connected to 132kV transmission in Scotland and the other to distribution at the same voltage in England and Wales; the distribution connected generator is treated as negative demand and directly receives 'embedded benefits', whereas a transmission connected generator is liable for Transmission Network Use of System Charges. However, we believe that, as the Scottish based generator is in a regulatory and legal sense connected to transmission, there are wider implications that should be considered, such as direct access to the wholesale electricity market and transmission related compensation mechanisms.

It is for these reasons that, in principle, we do not support the continuation of a discount for these generators, which is funded through an additional charge on demand tariffs. Indeed, we note that the materiality of this discount is increasing and that National Grid

presented data at its 21<sup>st</sup> July Transmission Charging Methodologies Forum<sup>1</sup> demonstrating how the value of the discount has increased from £2.4m in 2003-04 to an estimated £7.8m in 2010-11.

We believe that the materiality of the discount is likely to increase further and note that this is highlighted in Ofgem's open letter with respect to the inclusion of offshore generators connected to 132kV transmission.

We realise that a removal of these arrangements against the ongoing uncertainty surrounding transmission charging does, in effect, undermine the crucial long term certainty that is required by generation investors. We therefore believe that in the short term, Ofgem's minded to position to extend the period of the small generator's discount is both pragmatic and reasonable. The choice of 31 March 2013, on the basis that the Authority can reset the discount to zero, by a direction at any time which comes into effect from the following 1 April, seems appropriate.

However, these issues do need to be resolved and we believe that the small generator's discount cannot be properly considered without a review of the commercial and regulatory framework in place for distribution connected generation. Therefore it is appropriate for these complex issues to be considered within the scope of Project TransmiT; we provided specific comment on this in our response to the TransmiT call for evidence.

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, prior to 31 March 2013. Therefore retention of the 'best endeavours' clause on National Grid to implement an enduring solution does not seem unreasonable.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Rob Rome on 01452 653170, or myself.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

**Denis Linford**  
**Corporate Policy and Regulation Director**

<sup>1</sup> Slide 5 of <http://www.nationalgrid.com/NR/rdonlyres/4DDE7B63-FC93-4296-B961-4B9E68F04261/42325/200710EmbeddedGenerationUpdate.pdf>