Press release

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OFGEM PROPOSES CHANGES TO THE WAY CHARGES ARE SET FOR GENERATORS USING THE HIGH-VOLTAGE GRID

- **Fairer charges for variable, low carbon generators**
- **Ofgem's proposals will avoid significant bill impact for consumers**

Ofgem is today asking for industry views on proposals to change the formula to set transmission charges for power generators using the high voltage grid. Overall transmission charges make up four per cent of an average household power bill.

Given the large amount of new low carbon generation that needs to connect to the electricity networks, Ofgem has been reviewing whether the current formula for setting these charges remains fair.

Ofgem's preferred option would retain location-based charging where generators pay more to transmit power the further they are sited from areas of high electricity demand. However, improvements would be made to the formula to take account of the type of generator and how often they are using the network to transmit power. This is because the amount of power produced by some generators, mainly wind farms, is variable.

Hannah Nixon Senior Partner for Transmission, said: "The current formula was designed for a different era when Britain's power all came from conventional sources like coal and gas. The mix of generators producing power is changing rapidly. More renewable and low carbon generators are connecting to the grid. So the charging formula needs to be updated to reflect the new realities of the generation mix. Renewable generators with a variable output are not using the networks continually. The formula needs to reflect this to ensure their charges are fairer."

The effects of Ofgem's proposals would impact on conventional generators, but they would be more pronounced for wind farms and other variable generators. Charges for Scottish generators would fall with wind farms in Northern Scotland seeing reductions of **up to 60 per cent** in the amounts paid for using the wider high voltage network.* Payments made to generators in the south of England would also fall and some generators that currently receive payments from National Grid, would begin to face charges.

Ofgem is consulting on ruling out using a 'postage stamp', or 'socialised', formula where all generators pay the same charge regardless of where they are located. This is because it would result in around **£7 billion** of increased costs being borne by consumers without providing tangible additional benefits. Ofgem's proposal ensures that the cost of transmission is kept low for customers as the effect on bills is minimal.

Ofgem now wants to hear industry views on its proposals before making a final decision next April. Following that, National Grid would table proposals to change the industry rules, meaning the new regime could be in place in 2013.

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Note to Editors

1. What are transmission charges?

Transmission charges for generators and suppliers are set by National Grid using a formula approved by Ofgem. They account for four per cent of a household power bill. Generators face higher charges to transmit power the further they are located away from areas of high electricity demand as it costs more to transport their energy to consumers. Generators in the south of England pay lower charges, and in some cases receive payments. This is because they help National Grid avoid investment in reinforcing the high voltage grid.

2. How are transmission charges set?

The costs National Grid faces for running the high voltage grid are shared out among all users of the grid, both generators and electricity suppliers. This means generators pay charges to transmit power while businesses and homes pay for electricity to be transported to them as part of their bills. Location based charges have been in place in England & Wales since 1990 and were introduced GB wide in 2005 to better reflect the costs National Grid faces for running the high voltage grid.

The charges a generator pays to use the system are as follows:

Transmission Network Use of System (TNUoS) charges – which recover the costs of installing, operating and maintaining the high voltage transmission system.

These changes are made up of these components:

- Local tariffs, which recover the cost of assets needed to transmit power from the generator to the wider high voltage grid. This charge varies by generator, depending on the assets required, but does not vary by location.

- * Wider zonal tariffs, for the transmission of power on the wider high-voltage grid. An element of this charge does vary according to the generator's location, but the larger part is a residual element which is the same for all generators, irrespective of location. These tariffs make up the bulk of the charges generators pay. Ofgem's proposal would mean that wider zonal tariffs would fall by up to 60 per cent for wind farms in Northern Scotland.

3. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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