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all gas and electricity customers*

Our Ref: 130/12
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Date: 11 October 2012

Dear Stakeholder,

Decision and statutory consultation on extending the discount for small transmission connected generators set out in Standard Licence Condition C13 until 31 March 2016

We sought views in our July 2012 consultation¹ on our proposal to extend the "small generator discount" set out in Standard Licence Condition C13 (SLC C13) of the electricity transmission licence. This discount applies to sub-100MW generators connected at 132kV in Scotland and in offshore waters. This letter informs you of our decision and reasoning to extend SLC C13 until 31 March 2016.

SLC C13 requires National Grid Electricity Transmission plc (NGET) to discount the use of system charges for "eligible generators"² by a designated amount and to recover the revenue shortfall from demand users on a non-locational basis. SLC C13 expires on 31 March 2013.

Appendix 1 contains a summary of responses we received. Appendix 2 is a statutory consultation that proposes to modify SLC C13, which is part of National Grid Electricity Transmission plc's (NGET) licence. Responses to our statutory licence modification consultation should be sent to us on or before 9 November 2012.

Our July 2012 consultation

In our July 2012 consultation, we described, amongst other things, the nature of embedded benefits as well as the background to, and effect of, SLC C13. We also set out possible options, identified our preferred approach and provided our reasons for considering it appropriate to extend SLC C13.

Extending the existing arrangements will allow an enduring charging solution to replace SLC C13 that can build upon any new transmission charging baseline as a result of industry work being progressed under Connection and Use of System Code (CUSC) modification

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[http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/Final%20Small%20generator%20C13%20open%20letter%2024-7-12%20\(published\).pdf](http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/Final%20Small%20generator%20C13%20open%20letter%2024-7-12%20(published).pdf)

² As defined in SLC C13 as "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 voltage 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".

proposal (CMP) 213³. This work was initiated in June 2012 as a result of a direction⁴ we issued to NGET after the publication of our conclusions to the Significant Code Review (SCR) under Project TransmiT⁵.

In our July 2012 consultation we also stated that NGET had written to us⁶ setting out its view that it was not practicable or efficient to implement an enduring transmission arrangement in relation to the "small generator discount" from April 2013. One of the reasons given by NGET was that the enduring process for SLC C13 should ideally be assessed against a stable and enduring transmission charging baseline taking into account any amendment from the conclusions of CMP 213. We also note that in its letter NGET set out a proposed timetable for taking forward enduring embedded generation charging arrangements. Against this background, NGET recommended an extension of SLC C13 until 31 March 2016.

Our July 2012 consultation put forward two policy options available to us to deal with the expiry of SLC C13. These were:

- a) Maintain the current level of small generator discount by extending the expiry date of the current licence condition beyond 31 March 2013. This included two sub-options:
 - i. extend the licence condition expiry date by an agreed period at the current value of the designated sum amount, or
 - ii. extend the licence condition expiry date by an agreed period, but allow the Authority to set an alternative value for the designated sum amount.
- b) Allow the licence condition to expire on 31 March 2013 (ie do nothing).

Each of these options was discussed in our July 2012 consultation and we noted that option a)i. represented the smallest change. Our initial view was that a)i. is the most proportionate and pragmatic approach and that the extension should be until 31 March 2016.

Issues raised in the July 2012 consultation

In our July 2012 consultation we sought views from stakeholders on our proposed approach to extend the "small generator discount" and in particular requested views on three questions. Our questions and a summary of responses are set out in Appendix 1.

All of the responses we received supported our proposal to extend SLC C13. A number of respondents commented that, in their view, the duration of the 'small generator discount' provision contained in SLC C13 should be longer than March 2016, with one respondent supporting extending the provision indefinitely until a permanent solution is in place. No respondents supported introducing provisions to prevent the extension of the 'small generator discount'.

Our decision

We are grateful to stakeholders for their responses and have taken these into account in coming to our decision. We acknowledge respondents' support for the extension of SLC C13. We recognise that some respondents considered that this date should be longer or

³ <http://www.nationalgrid.com/NR/rdonlyres/1E2EC8BF-0AA5-400E-988C-6AF9A18B70E6/54359/CMP213TransmiT.pdf>

⁴ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=234&refer=Networks/Trans/PT>

⁵ <http://www.ofgem.gov.uk/Networks/Trans/PT/Pages/ProjectTransmiT.aspx>

⁶

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=170&refer=Networks/Trans/ElecTransPolicy/Charging>

indefinite. We consider that it is appropriate to extend this SLC until 31 March 2016 as we expect that industry will begin work during this time to produce an enduring solution to embedded generation charging arrangements. We note comments from a respondent that it is disappointed that an enduring solution will not be in place by April 2013. However, given the potential fundamental changes to electricity transmission charging being progressed under CMP213 and the impact these may have on the enduring charging baseline, we consider extending SLC C13 to be the most appropriate way forward. We have therefore decided that an extension to 31 March 2016 under option a)i. is the most proportionate and pragmatic response as it-

- provides a level of regulatory certainty to affected parties
- allows sufficient time for NGET to have developed proposals following the conclusions that may flow from CMP213
- gives the industry enough lead time ahead of implementation to establish an enduring transmission charging baseline.

Next steps

I attach at Appendix 2 a statutory modification consultation to give effect to the extension described above. The consultation period ends on 9 November 2012. All responses will be placed on our website unless marked confidential. Please send responses to:

roberta.fernier@ofgem.gov.uk

If we decide to make the proposed modification, it will take effect 56 days after our decision is published. Please contact roberta.fernier@ofgem.gov.uk if you have any questions on this letter or the statutory modification consultation.

Yours faithfully,



Andrew Burgess

Associate Partner, Transmission and Distribution Policy

Appendix 1 summary of responses

In response to our July consultation we received 8 responses. They are available on our website⁷. Below is a summary of these responses. They are grouped under the specific questions we asked and other issues.

- It is appropriate to extend the small generator discount in SLC C13?

All of the responses we received supported this proposal. One respondent highlighted that neither NGET nor industry would be able to resource the development work on an enduring solution in parallel with work on CMP 213 and the SCR on Electricity Balancing. A number of respondents stated that the fundamental electricity charging changes being considered under CMP 213, and the impact they may have on an enduring charging baseline, present unique circumstances. Another respondent commented that it would expect Ofgem to take a similar approach to embedded generation issues as it did with other Project Transmit issues, ie examining the issues and solutions for embedded generation with working groups and academic and/or third party analysis. One respondent considered that the likelihood was that any enduring solution would involve a holistic approach to charging for embedded generation with potential changes to the CUSC, Balancing and Settlement Code (BSC) and Distribution Connection and Use of System Agreement (DCUSA) therefore an extension is appropriate.

- Is 31 March 2016 an appropriate time to extend to?

The majority of respondents supported this date. However a small number of respondents considered that the date should be further into the future. One of these respondents suggested that the licence condition could go on indefinitely and when a solution is established be removed. One of these respondents commented that given the amount of time it will take for the level of embedded generation to change significantly and given the planning required for sophisticated and accurate charging structures to be put in place to reflect smarter grids, this respondent believed the current arrangements including the small generator discount should stay in place for the next 10 years or until the next review of transmission arrangements. They suggested Ofgem should recognise this and not defer the issue of small generator discount every other year.

- Do we need to put in place any further measures to avoid further extension of the licence condition beyond 31 March 2016?

A number of respondents did not consider that any further steps are necessary. One respondent commented that it is essential that an enduring solution is developed in the context of considerable regulatory uncertainty and this might require further extension of the existing arrangements. A respondent commented that it is disappointed that an enduring solution has not been found and it urgently seeks a long term solution and for SLC C13 to be removed once a solution is in place. Another respondent commented that another extension may not only be required but would be appropriate. In addition, two respondents commented that NGET has indicated that it intends to review the charging arrangements around embedded benefits after the conclusion of CMP 213.

- Other issues

A number of respondents supported our proposal that the small generator discount will continue to be based on 25 per cent of total residual TNUoS tariff.

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<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=170&refer=Networks/Trans/ElecTransPolicy/Charging>

Appendix 2

NOTICE OF PROPOSED MODIFICATION OF STANDARD CONDITION C13 'ADJUSTMENT TO USE OF SYSTEM CHARGES (SMALL GENERATORS)' OF ELECTRICITY TRANSMISSION LICENCE OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989 (the 'ACT')

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the Act) as follows:

1. The Authority proposes to modify a standard condition of electricity transmission licences granted or treated as granted under section 6(1)(b) of the Act (the 'Licence') by amending standard licence condition (SLC) C13 'Adjustment to use of system charges (small generators)'.
2. The Authority proposes to modify standard licence condition SLC C13 of the Licence to extend the small generator discount until 31 March 2016.
3. The reasons for the Authority's decision to amend SLC C13 are more fully set out in the decision letter issued alongside this Notice. In summary, the proposed licence modification is the most proportionate and pragmatic response as it:
 - provides regulatory certainty to affected parties
 - allows sufficient time for National Grid Electricity Transmission plc to have developed proposals following the conclusions that may flow from Connection and Use of System Code (CUSC) modification proposal 213
 - gives the industry enough lead time ahead of implementation to establish an enduring transmission charging baseline.
4. The effect of the proposed modifications will be to extend the small generator discount until 31 March 2016.
5. The relevant licence holder for the purpose of this Notice is National Grid Electricity Transmission plc.
6. 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 the Ofgem website www.ofgem.gov.uk
7. Any representations on the proposed licence modifications may be made on or before 9 November 2012 to:

Roberta Fernie, Office of Gas and Electricity Markets, 107 West Regent Street, Glasgow, G2 2BA roberta.fernie@ofgem.gov.uk
8. 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 mark their response as not for publication. Ofgem

prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

9. If the Authority decides to make the proposed modification it will take effect 56 days after our decision is published.



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Andrew Burgess
Associate Partner, Transmission and Distribution Policy
Duly authorised on behalf of the Authority

11 October 2012

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 201~~36~~.
6. 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).