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Ofgem  
9 Millbank  
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23<sup>rd</sup> December 2015

Dear Catherine

**Re: Consultation on proposal to modify Standard Licence Condition C13 of the electricity transmission licence (Adjustment to use of system charges (small generators))**

Thank you for the opportunity to respond to Ofgem's consultation on extending the small generators TNUoS charge discount. We were surprised that Ofgem has chosen to consider extending the discount at this late stage, so close to its expected expiry on 31<sup>st</sup> March 2016 and as National Grid Electricity Transmission (NGET) is in the process of setting the TNUoS tariffs to apply from 1<sup>st</sup> April 2016.

We do not agree that the nature of the change cannot be considered to be extensive, when the size of the discount could result in a transfer from Suppliers to those Generator's that qualify for the benefit in the region of £32million<sup>1</sup> for 2016/17 and potentially increasing for the subsequent two years. An effect on HH demand tariffs of £0.52/kW. In seeking to extend the small generators discount it would have been helpful if Ofgem could have assessed and provided more up to date and timely information on the cost of the discount to Suppliers for the duration of the proposed extension, particularly in the context of the CMP213 change.

With the level of generation tariffs in Scotland, where the large majority of generation that would receive the benefit is located, applying the discount to those generation zones results in tariff changes ranging from a circa 50% reduction in positive tariff to negative tariffs. This becomes inconsistent with the argument that the discount is intended to create a level playing field with those 132kV connected generators in England and Wales who will have paid a distribution connection charge, in addition to any ongoing obligation to pay Generation DUoS charges.

The timing of this consultation is unhelpful as this now creates some uncertainty for Suppliers between NGET's indicative 2016/17 TNUoS tariff's published in December 2015

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<sup>1</sup> Based on NGET's Draft TNUoS tariffs for 2016/17 published on 21<sup>st</sup> December 2015 and the TEC Register.

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and the final tariff's to apply from 1<sup>st</sup> April 2016, to be confirmed in January 2016. Although December's draft tariff's published by National Grid assume the Small Generator's discount applies this will not be confirmed until Ofgem makes its final decision.

NGET's 'review of the embedded (distributed) generation benefit arising from transmission charges' concluded that, "... *there is no justification for continuing with the small generators' discount indefinitely, and we conclude that SLC C13 should be allowed to lapse from April 2016*"<sup>2</sup>. Since NGET's review of embedded generation benefit concluded in April 2014, Ofgem has, to our knowledge, provided no response to NGET's conclusion on the embedded review, to the extent that the discount lapsing is acknowledged in NGET's five year tariff forecast published in January 2015. This may have avoided industry time and resource being expended on CMP239, which the Authority rejected, and arguably NGET's review of embedded generation benefit itself, if Ofgem does not believe that it satisfactorily concluded on this topic.

Earlier engagement with industry, following the conclusion of NGET's review 20 months ago, perhaps through established industry forum, such as NGET's Transmission Charging Methodology Forum (TCMF), would have allowed the full implications of extending the discount for a further three years to have been better quantified and assessed by industry. Ofgem's assessment of whether to extend the discount may also have been better informed.

We are unaware of any new analysis having been put forward to justify extending the discount contrary to the conclusion of NGET's review of embedded generation benefit. NGET is assessing whether a Modification Proposal could be raised to address the issue of exporting Grid Supply Points, based on industry feedback to NGET's review of embedded generation benefit, and we will see if any formal proposals come forward on this, or on the broader topic of reviewing charging for use of the transmission system in the context of today's changing generation landscape. This however does not necessitate extending the discount, what was meant to be an interim measure when it was introduced in April 2005, for a further three TNUoS charging years up to the end of March 2019.

We hope you find our response to be of help and would be happy to discuss any aspect of it with you further.

Yours sincerely

Guy Phillips  
Upstream Market Development Manager

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<sup>2</sup> <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=32765>