



Making a positive difference
for energy consumers

Transmission licensees,
generators, suppliers and
any other interested parties

Direct dial: 020 7901 7331

Email: frances.warburton@ofgem.gov.uk

Date: 22 January 2016

Decision to modify Standard Licence Condition C13 of the electricity transmission licence (Adjustment to use of system charges (small generators))

Following our November 2015 statutory consultation proposing to amend Standard Licence Condition (SLC) C13 of the electricity transmission licence¹, we have decided to proceed and extend the expiry date of the small generator discount from 31 March 2016 to 31 March 2019. We note that if no decision on enduring charging arrangements for embedded generation is made before the new expiry date, this further extension does not provide any assurance as to the continuation of the discount beyond 31 March 2019. Similarly, if a decision on enduring arrangements is made before 31 March 2019, the discount may be discontinued prior to the new expiry date.

This letter sets out the reasons for our decision which will take effect from 31 March 2016. Formal notice of the change to the transmission licence and non-confidential responses to our consultation are published on our website alongside this letter.

Background

The discount referred to as the small generator discount was introduced² by the UK Government at the time of BETTA³ in 2005. The aim of the discount was to create a level playing field between under 100MW 132kV *transmission* connected generators in Scotland and offshore, and those that are *distribution* connected at 132kV in England and Wales. Generators connected at 132kV to the distribution system in England and Wales are called embedded generators and are treated as negative demand⁴ for the purposes of transmission charging. As a result, embedded generators do not pay generation transmission charges and they may also receive a benefit from suppliers because they reduce their demand transmission charges. Together, this is known as "embedded benefit". Small generators connected to the 132kV network in Scotland do not receive this benefit.

¹ The consultation is available on our website, here <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposal-modify-standard-licence-condition-c13-electricity-transmission-licence-adjustment-use-system-charges-small-generators>

² https://www.ofgem.gov.uk/sites/default/files/docs/2004/05/6951_9604.pdf

³ The British Electricity Trading and Transmission Arrangements (BETTA) joined the wholesale market in England & Wales to that in Scotland.

⁴ The volume of embedded generation is taken off the total demand volume to create a net demand for the purposes of transmission charging.

The level of the small generator discount was determined by Ofgem in 2005 and is 25% of the sum of the generation and demand residual⁵ Transmission Network Use of System (TNUoS) tariffs in a given charging year. This is recovered from demand consumers across GB.

The discount was time limited and was originally set to expire on 31 March 2008 to allow time to develop enduring charging arrangements for embedded generators. The expiry date has been extended three times since due to different interacting projects. The current expiry date set out in the Licence (SLC C13(5)) is 31 March 2016.

We received sixteen responses to our statutory consultation. Of these ten were in favour of the extension, five were against and one was neutral.

Reasons for our decision

The discount was introduced to provide a level playing field for small 132kV connected generators in Scotland while industry developed enduring arrangements for transmission charging for embedded generators. We are aware of ongoing work in this area such as National Grid's work on exporting Grid Supply Points (GSPs). In our view, it is appropriate that the discount remains in place while work on this matter continues. The rest of this section addresses issues raised by respondents to our November 2015 consultation.

National Grid analysis

A number of respondents have highlighted analysis that NGET carried out as part of their review of Embedded Generation in 2013 and 2014.⁶ This analysis compares TNUoS charges, Distribution Network Use of System (DUoS) charges and connection charges for sub-100 MW 132kV connected generators in Scotland and their counter parts in England and Wales. It led NGET to conclude that the difference in charges between sub-100 MW 132 kV connected generators in Scotland and in England and Wales is small and broadly cost reflective. However, we do not consider that the evidence considered allows us to reach a view on whether letting the discount expire is more cost reflective than continuing with the discount. In support of this position, we note that the evidence available to NGET in respect of connection charges was limited. In particular, the bottom-up estimate of connection charges for distribution connected generators that NGET used to reach this conclusion relies on a small and self-selecting sample of connection charges and varies significantly from their top-down estimate of connection charges carried out earlier in the review process. We also note that the analysis does not fully take account of embedded benefits for sub-100 MW Embedded Generators and that it does not consider Balancing Service Use of System (BSUoS) charges or transmission losses.

Timing

Some respondents raised concerns about the timing of our consultation and decision on the extension of the discount. They noted that network users may have expected the small generator discount to expire and making the decision to extend it at this stage creates uncertainty. One respondent highlighted that extending the small generator discount will increase TNUoS charges for demand customers by around 50p/kW.

We acknowledge that it would have been helpful to consult on the proposed extension to the expiry date earlier. However, we did not want to interfere with the CUSC Modification process for CMP239 which took place in 2015 and we were also keen to understand industry's views on NGET's work around exporting GSPs before reaching our decision.

⁵ The residual is the element of the TNUoS charges that is collected from all users on a socialised basis and does not vary by location. It is determined to recover the correct amount of total revenue and to ensure the correct split of recovery between generators and suppliers.

⁶ Documents relating to NGET's Embedded Benefits review are available on their website, here <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Transmission-Network-Use-of-System-Charges/Embedded-Benefit-Review/>

We also note that the 50p/kW difference in charges resulting from the inclusion of the discount is well within the normal range of variance between quarterly TNUoS forecasts.

Future expectations

A number of respondents consider that this and previous decisions to extend the discount creates a legitimate expectation that if changes to charging arrangements for Embedded Generation are not developed by 31 March 2019, then the discount will be extended again. We wish to make clear that this is not the case and that any future decision on extending the discount will be made based on the evidence available to us at that time. However, we are aware of the growing level of embedded benefit and NGET's ongoing work on exporting GSPs. We are also aware that small-scale generators bring a range of benefits, including for security of supply as they can help to meet peak demand by producing electricity when it is most needed. We are looking into whether action is needed in this area.

Please contact Donald Smith on 0141 331 6014 if you wish to discuss this decision or anything raised in this letter.

Yours faithfully,

Frances Warburton
Partner, Energy Systems Integration