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Ofgem

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

Donald,

SmartestEnergy is taking the opportunity to respond to Ofgem's Open Letter on the discount for small transmission connected generators from 31st March 2016.

SmartestEnergy is generally supportive of the proposal to extend the Small Generator Discount (SGD) to 31st March 2019.

In our response to the equivalent consultations in 2010 and 2012 we stated the following:

"SmartestEnergy is generally supportive of the proposal to extend the Small Generator Discount but we believe that the advent of SmartGrids and the opportunity to introduce more sophisticated charging across both transmission and distribution networks means that current arrangements should continue until this new world has been, or is close to being, realised. Ofgem should recognise this now rather than be seen to be continually deferring the issue of the Small Generator Discount every other year."

This remains our view. The current arrangements for TNUoS and TLM are somewhat simple but effective; embedded generation receives a benefit equal to the charges on the transmission network but the associated embedded demand (in a self-supply arrangement, for instance) still pays the charges thus creating a net zero effect which reflects the fact that the transmission network has not been used. There are also arrangements in place to deal with the eventuality that a GSP may suddenly be a net exporter; the embedded benefits of BSUoS and RCRC reverse. National Grid is also now progressing changes on the basis that only where a GSP is exporting is there any reason to suggest that a TNUoS-related charge should be levied.

Regardless of these changes it is still the case, however, that without the Small Generator Discount a disparity would exist between revenues for transmission connected 132kV generation in Scotland and distribution connected 132kV generation in the rest of GB. Given the planning that will be required for more sophisticated and

accurate charging structures to be put in place to reflect SmartGrids and charging equivalence across the networks, we believe that the current arrangements, including the Small Generator Discount, should stay in place for a few more years yet.

We note with interest that Fred Olsen's proposal to grandfather arrangements for the Small Generator Discount (CMP239) was rejected by Ofgem. This would suggest that Ofgem do not wish to see a gradual removal of the SGD but to continue with the plans for a drop dead date for all generators. In our view this is not good for certainty for those planning new sites and in our view CMP239 represented the best solution given the aforementioned amount of time it will take to get enduring charging arrangements in place.

We would encourage Ofgem to start to indicate their preference for more enduring arrangements on a cross-network basis as part of the smarter markets work, and not, as historically, as an expectation of National Grid. It is imperative, however, in our view that charging should continue to reflect the level of use of the networks and make allowances for the proximity of demand and generation to each other.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

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