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Date: 25 November 2015

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

This letter sets out our proposal to extend the small generator discount as set out in Standard Licence Condition C13 (Adjustment to use of system charges (small generators)) (SLC C13) of the electricity transmission licence (the Licence).

#### **Background**

The discount referred to as the small generator discount was introduced<sup>1</sup> by the UK Government at the time of BETTA<sup>2</sup> 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 demand<sup>3</sup> 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.

The level of the small generators discount was determined by Ofgem in 2005 and is 25% of the sum of the generation and demand residual<sup>4</sup> 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 to date due to different interacting projects. The current expiry date set out in the Licence (SLC C13(5)) is 31 March 2016.

#### **Proposed change**

We propose to modify SLC C13 by amending the expiry date of this condition from 31 March 2016 to 31 March 2019. Appended to this letter is a formal Notice under Section

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<sup>1</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2004/05/6951\\_9604.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2004/05/6951_9604.pdf)

<sup>2</sup> The British Electricity Trading and Transmission Arrangements (BETTA) joined the wholesale market in England & Wales to that in Scotland.

<sup>3</sup> The volume of embedded generation is taken off the total demand volume to create a net demand for the purposes of transmission charging.

<sup>4</sup> 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.

11A of the Electricity Act 1989 (the Act) setting out our proposed modification of the Licence.

### **Our reasons for this change**

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. These arrangements have not yet been developed, and options are still being developed. In our view it is appropriate that the discount remains in place while this work continues.

### **How to respond**

We welcome your views on the proposed changes to SLC C13. In accordance with our guidance on the way we consult<sup>5</sup>, we do not think that the proposed changes are extensive. We therefore think that a consultation period of 28 calendar days is appropriate.

Please send your responses by **5pm** on **23 December 2015** to [donald.smith@ofgem.gov.uk](mailto:donald.smith@ofgem.gov.uk), using the subject line "Response to consultation on the extension of the small generator discount".

We will publish responses on our website unless they are clearly marked confidential.

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

Yours faithfully,

**Catherine Williams**  
**Head of Commercial Regulations,**  
**Electricity Transmission**

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<http://www.ofgem.gov.uk/About%20us/BetterReg/Documents1/guidance%20on%20ofgems%20approach%20to%20consultation.pdf>