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

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 those that are *distribution* connected at 132kV in England and Wales. It also applies to offshore generators which are under 100MW and are 132kV transmission connected. Generators connected at 132kV to the distribution system in England and Wales and with a capacity of below 100 MW are called smaller embedded generators and do not pay generation transmission charges. Until April 2018 smaller embedded generators were treated as negative demand<sup>3</sup> for the purposes of transmission charging and typically received a benefit from suppliers for reducing their demand transmission charges. Since April 2018, this has been replaced by the Embedded Export Tariff (EET), described below. Small generators connected to the 132kV network in Scotland do not receive the EET, and pay generator transmission charges.

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.

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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.

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 four times to date due to different interacting projects. The current expiry date set out in paragraph 5 of SLC C13 is 31 March 2019.

## **Embedded Benefits review and Targeted Charging Review**

The implementation of our decision on Connection and Use of System modification proposals (CMP) 264/265 in April 2018<sup>5</sup> has changed the treatment of embedded generators in TNUoS charging. Embedded generators (including those connected at 132kV in England and Wales) are no longer treated as negative demand but receive the Embedded Export Tariff (EET), which is a payment based on the locational element of demand tariffs, a credit for avoided grid infrastructure, and a declining proportion of the residual charge. The EET is floored at zero so that it can never be a cost to generators. Whilst the benefit to embedded generators has reduced, there remain differences to the treatment of 100MW 132kV transmission connected generators in Scotland.

The Targeted Charging Review<sup>6</sup> (TCR) was launched in August 2017 to address concerns that the current framework for residual charging may result in inefficient use of the networks, and to keep other embedded benefits under review. Under the TCR, we are considering enduring changes to the arrangements for the charging of the residual element of network charges, including the option of charging residuals on final demand only.

## **Proposed change**

We propose to modify SLC C13 by amending the expiry date of this condition from 31 March 2019 to 31 March 2021. Appended to this letter is a formal Notice under section 11A of the Electricity Act 1989 setting out our proposed modification to SLC C13.

## **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 continue to be developed via the TCR. In our view it is appropriate that the discount remains in place while this work continues.

For the avoidance of doubt, when the new TCR arrangements are developed, we would envisage using our power under paragraph 4 of SLC C13 to direct the designated sum under the small generator discount to zero, if appropriate.

## **How to respond**

We welcome your views on the proposed changes to SLC C13. Please send your responses on or before **5pm on 4 January 2019** to [andrew.self@ofgem.gov.uk](mailto:andrew.self@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 Andrew Self on 020 7901 1857 if you wish to discuss the consultation or anything raised in this letter.

Yours faithfully,

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<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/embedded-benefits-impact-assessment-and-decision-industry-proposals-cmp264-and-cmp265-change-electricity-transmission-charging-arrangements-embedded-generators>

<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/08/tcr\\_scr\\_launch\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/08/tcr_scr_launch_letter.pdf)

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