



Generation licence applicants,  
licensed generators, and all other  
interested parties

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*Promoting choice and value for  
all gas and electricity customers*

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Date: 30 November 2012

Dear colleague

### **Change to the electricity generation licence to extend the geographic scope to include a Renewable Energy Zone**

This letter is to advise interested parties of a forthcoming change to the geographic scope of electricity generation licences, in light of changes to the Electricity Act 1989 ("the Act"). The changes to the Act mean that it will be prohibited (i) to generate electricity in a Renewable Energy Zone (REZ)<sup>1</sup> and (ii) to generate electricity for the purposes of supply to any premises situated in a REZ or otherwise situated in a 'designated area'<sup>2</sup> without a generation licence.

#### **Background**

The Authority authorises electricity generation in accordance with the provisions of the Act, which prohibits the generation of electricity for the purposes of supply to any premises without a licence. Generation licences authorise licensees to generate electricity for the purposes of supply to any premises in a 'specified area'. The terms of the generation licence currently provide that the specified area is 'GB'.

Government amended the provisions of the Act through the Energy Act 2004. Once the amendments are in effect, amongst other things, generating electricity in a REZ without a generation licence will be prohibited. Currently and until then, the prohibition applies only to GB and GB territorial waters.

#### **Extending the geographic scope of generation licences**

From the date that the amendments are in effect, it will be made clear in the Act that unlicensed generation of electricity for the purposes of supply to any premises in GB and the territorial sea adjacent to GB is prohibited. In addition, this prohibition will extend to generating electricity in a REZ and also generating for the purposes of supply to any premises in a REZ or otherwise in an area designated under section 1(7) of the Continental Shelf Act 1964.

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<sup>1</sup> A Renewable Energy Zone is defined in section 64(1) of the Electricity Act 1989 and section 84 of the Energy Act 2004. This essentially covers areas outside GB's territorial sea but within which the UK has rights for energy production.

<sup>2</sup> Designated under section 1(7) of the Continental Shelf Act 1964.

It will therefore be necessary, where relevant, to extend the geographic scope of generation licences beyond GB, to reflect this. Whilst the changes to the Act are not yet in effect, we consider that it is prudent for us to grant generation licences now that provide for the geographic scope to extend once the relevant legislative changes are in force - particularly given that prospective generators who will be generating in a REZ are applying for licences now. This will avoid the need for those parties to take further action to ensure their licences authorise their activities once the prohibition is extended. We are therefore already granting new generation licences with a specified area that will cover the extended geographic scope once the changes to the Act are in effect (see annex 1).

We recognise that this issue may also affect some existing generation licensees, who may also need to have licences with the extended geographic scope once the prohibition is extended to a REZ. We would expect all generation licensees to consider their position and contact us if they identify that they are affected by this issue.

### **Next steps**

New generation licences that we grant going forward will provide for the geographic scope to encompass the extended area once the relevant legislative changes are in force. For existing licensees, it is a matter for individual generators to identify whether the forthcoming changes to the generation prohibition impact them and whether they may require a licence with an extended scope to include the REZ.

The changes to the Act may also require changes to the conditions of the generation licence. Our Offshore Transmission team is reviewing the current conditions, and expects to consult next year on any proposed changes to the generation licence conditions.

Please contact our Licensing Team ([Licensing@ofgem.gov.uk](mailto:Licensing@ofgem.gov.uk)) in the first instance if you wish to discuss any of the issues in this letter.

Yours faithfully

**Lesley Nugent**  
**Head of Industry Codes and Licensing**

## **Annex 1**

This annex sets out the revised drafting of the terms and schedule 1 to the generation licence that prescribes the 'specified' area for new generation licences. Note that schedule 1 has been split into two schedules for simplicity and ease of reference.

Under paragraph 1 of the terms of the licence, licensees are authorised "to generate electricity in the area specified in Schedule 1A for the purpose of giving a supply to any premises in the area specified in Schedule 1B".

### **SCHEDULE 1A**

#### **SPECIFIED AREA**

Great Britain, the territorial sea adjacent to Great Britain, and (from the date of commencement of section 89 of the Energy Act 2004 in relation to the activity of the licensee) any Renewable Energy Zone.

where:

Renewable Energy Zone has the meaning given by section 84(4) of the Energy Act 2004.

### **SCHEDULE 1B**

#### **SPECIFIED AREA**

Great Britain, the territorial sea adjacent to Great Britain, and (from the date of commencement of section 89 of the Energy Act 2004 in relation to the activity of the licensee) any Renewable Energy Zone and any place that is not in a Renewable Energy Zone but is in an area designated under section 1(7) of the Continental Shelf Act 1984.

where:

Renewable Energy Zone has the meaning given by section 84(4) of the Energy Act 2004.