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Dear Colleague,

**BETTA consultation on draft licence condition to implement a proposed interim charging measure for small, transmission connected generators**

In May 2004, Ofgem/DTI published a conclusions document<sup>1</sup> on small generator issues under BETTA. This followed a consultation document published in November 2003. The purpose of those documents was to identify whether and how the BETTA arrangements might need to be revised relative to the arrangements currently in place in England and Wales to ensure a level playing field for all generators.

The May 2004 conclusions document set out the basis for a specific proposal in respect of transmission charges. Ofgem/DTI set out a view that there was a disparity in treatment between transmission and distribution connected small generators which, if rolled out on a GB basis, would have the effect of unduly disadvantaging small, transmission connected generators. In order to address this disparity Ofgem/DTI proposed a reduction in transmission charges for affected generators. Ofgem/DTI considers that this form of measure better facilitates competition in the market as a whole relative to not taking any action in the short term to address the disparity in charging treatment.

The rationale for the proposed measure set out in Ofgem/DTI's consultation and conclusions paper related to the net effect of a particular aspect of the current England and Wales methodology when compared to the charges faced by distributed-connected generators. Specifically, it relates to the share of total revenue that is not recovered through the locational element of NGC's charges<sup>2</sup>.

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<sup>1</sup> "Small generator issues under BETTA: An Ofgem/DTI conclusions document", May 2004, Ofgem 96/04

<sup>2</sup> Generator use of system tariffs are, broadly speaking, derived by NGC in three steps. First, the locational element of the tariffs for both generation and demand are calculated using a network model. Second, these tariffs are scaled up for demand and down for generator to ensure that the generators contribute 27% of total revenue recovered via these tariffs. Third, all tariffs are scaled up uniformly to ensure total revenue recovery in aggregate. Ofgem/DTI concluded that, given the balance of arguments, it was

Ofgem/DTI recognised in its conclusions document that this was a necessary measure in the short term, but that it did not represent an enduring solution to the issue of interactions between distribution and transmission charging. Ofgem committed to take forward work in the medium term to identify and implement an enduring solution. In this context, Ofgem/DTI proposed that the measure should be time-limited.

Ofgem/DTI intends to implement this measure through a stand-alone licence condition to apply to the GB system operator. In effect, there will be a two-step process in the GB system operator calculating final charges to transmission users. First, the GB system operator will calculate charges pursuant to its approved charging methodology, i.e. the process of the GB system operator developing the methodologies and the Authority considering approval of the proposed methodologies is independent of the proposed interim measure. Second, the GB system operator will modify the charges derived through the application of its approved methodologies in a manner prescribed in the stand-alone licence condition. In Ofgem/DTI's view, this has the benefit of being transparent, and ensuring that the measure can be phased out when appropriate without unnecessary complication.

The licence condition therefore defines the following:

- The parties who are to have lower charges than would otherwise be the case;
- The parties who are to have higher charges than would otherwise be the case;
- The level of discount to be applied; and
- The date on which the licence condition terminates.

The intent of the proposed licence condition is to define parties who are to have lower charges than would otherwise be the case to be those transmission connected parties who, as a result of their size and connection voltage, would not be liable for transmission network use of system charges if they were connected to the total system in England and Wales. On the basis of NGC's approved charging methodology in England and Wales this equates to licence exempt generators and generators with capacity less than 100MW connected to the GB transmission system at 132 kilovolts.

Since the level of discount to be applied through this measure is contingent on the approved use of system charging methodology of the GB system operator, it would be inappropriate to define the level of discount prior to a GB methodology being approved. The attached legal drafting recognises this constraint on when a decision can properly be made by providing for the actual level of discount to be determined by the Authority in due course.

In practice, Ofgem would seek to publish its decision as to the level of discount at the same time as its decision to approve a methodology. Subject to the necessary legislative powers being available, Ofgem anticipates that this decision will be published in late October 2004.

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appropriate to base the proposed discount on the generator share of the third step in this process, i.e. NGC's residual tariff. Whilst, Ofgem/DTI recognise that there are other approaches that could have been adopted, Ofgem/DTI remain of the view that this represents a transparent and proportionate interim measure.

## Views invited

The proposed legal drafting includes consequential changes to standard licence conditions of the proposed transmission licences under BETTA and consequential changes to the proposed Connection and Use of System Code ("CUSC") to ensure that the liability for charges pursuant to the approved charging methodologies and adjusted in line with proposed standard licence condition C13 is unambiguous.

Any comments on the issues raised in this consultation and the legal drafting contained in appendix 1 should be sent by 6 August 2004, to:

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Alternatively, comments can be emailed to [BETTA.consultationresponse@ofgem.gov.uk](mailto:BETTA.consultationresponse@ofgem.gov.uk). If you wish to discuss any aspect of the legal drafting contained in appendix 1, please contact Colin Sausman, email [colin.sausman@ofgem.gov.uk](mailto:colin.sausman@ofgem.gov.uk), telephone 020 7901 7339 or Grant McEachran, email [grant.mceachran@ofgem.gov.uk](mailto:grant.mceachran@ofgem.gov.uk), telephone 0141 332 5647.

## **APPENDIX 1: PROPOSED LEGAL DRAFTING**

### **NEW STANDARD CONDITION FOR TRANSMISSION**

#### **Condition C13: Adjustments to use of system charges (small generators)**

1. When calculating charges for the provision of transmission network services to Eligible Generators the licensee shall set a charge in conformance with the use of system charging methodology in accordance with standard condition C4 (Charges for use of system) less a Designated Sum.
2. When calculating charges for the provision of transmission network services to customers who are taking demand from the GB transmission system the licensee shall set charges in conformance with the use of system charging methodology in accordance with standard condition C4 (Charges for use of system) plus a unit amount (to be added to all such charges on a non-discriminatory and non-locational basis) such that the net effect of this standard condition on total sums recovered by the licensee during the period in which this standard condition is in effect is zero. The licensee shall ensure that the net sums recovered in any given year are as far as practicable zero.
3. The licensee shall ensure that it provides sufficient information to all parties whose use of system charges are or may be adjusted in accordance with this condition to allow such parties to make a reasonable estimate of the charges to which they would become liable for the provision of transmission network services. To the extent that net sums recovered in any given year might not be equal to zero, the licensee shall also publish sufficient information to explain how any over or under-recovery in the current year made pursuant to this condition will affect charges in the following year.
4. The Authority shall be entitled to issue a direction pursuant to this standard condition at any time stating that, with effect from 1 April immediately following the issuing by the Authority of such a direction, the Designated Sum shall be equal to zero.
5. In the absence of a direction being issued by the Authority pursuant to paragraph 3 above, the Designated Sum shall be set equal to zero from 1 April 2008 until 31 March 2009.
6. This condition shall cease to have effect on 31 March 2009.
7. For the purposes of this condition:
  - “Eligible Generator” means a generating station which is:
    - (a) liable for charges for the provision of transmission network services under the use of system charging methodology approved by the Authority in accordance with standard condition C4 (charges for use of system); and
    - (b) connected to the GB transmission system at a voltage of 132 kilovolts; and

(c) would not, on the basis of its maximum generating capacity, be liable for charges for the provision of transmission network services if it were connected to the network of a licensed distribution network operator rather than to the GB transmission system.

“Designated Sum” means such sum as shall be directed by the Authority as soon as practicable after the determination of an approved use of system charging methodology in accordance with standard condition C4 (Charges for use of system).

## **CONSEQUENTIAL CHANGES TO OTHER STANDARD CONDITIONS FOR TRANSMISSION**

### **Condition C4: Charges for use of system**

1. The licensee shall:
  - (a) by the date this condition comes into effect determine a use of system charging methodology approved by the Authority; and
  - (b) conform to the use of system charging methodology as modified in accordance with standard condition C5 (Use of system charging methodology) [and subject to standard condition C13 \(Adjustments to use of system charges \(small generators\)\)](#).
4. [With the exception of the requirement to comply with standard condition C13 \(Adjustments to use of system charges \(small generators\)\) provided for in paragraph 1\(b\)](#), nothing in this condition shall affect the ability of the licensee to charge according to the statement issued pursuant to paragraph 2(b).

### **Condition C7: Prohibition on discriminating between users**

2. Without prejudice to paragraph 1 and subject to [paragraphs 3 and 5](#), the licensee shall not make charges for provision of use of system to any authorised electricity operator or class or classes of authorised electricity operator which differ in respect of any item separately identified in the statement referred to at paragraph 2(b) of standard condition C4 (Charges for use of system) from those for provision of similar items under use of system to any other authorised electricity operator or class or classes of authorised electricity operator except in so far as such differences reasonably reflect differences in the costs associated with such provision.

5. [For the avoidance of doubt the adjustment of use of system charges made in accordance with standard condition C13 \(Adjustments to use of system charges \(small generators\)\) shall not place the licensee in breach of this condition.](#)

## CONSEQUENTIAL CHANGES TO THE CONNECTION AND USE OF SYSTEM CODE (“CUSC”)

### 3.9 USE OF SYSTEM CHARGES

3.9.1 Subject to the provisions of the **CUSC**, and any relevant **Bilateral Agreement**, together with the relevant **Charging Statements**, each **User** shall with effect from the relevant date set out in the relevant **Bilateral Agreement** (or in the **Use of System Supply Confirmation Notice**) be liable to pay to **NGC** the **Use of System Charges** in accordance with the **CUSC** calculated in accordance with the **Statement of Use of System Charges** and the **Statement of the Use of System Charging Methodology** [and adjusted as provided for in standard condition C13 of the Transmission Licence](#). **NGC** shall apply and calculate the **Use of System Charges** in accordance with the **Statement of Use of System Charges** and the **Statement of the Use of System Charging Methodology** [and adjusted as provided for in standard condition C13 of the Transmission Licence](#).

3.9.2 Each **User** shall, as between **NGC** and that **User**, in accordance with this Part II and Paragraph 6.6, be liable to pay to **NGC** (or **NGC** shall be so liable to pay to the **User**) the **Transmission Network Use of System Charges** in respect of its use of the **GB Transmission System** applied in accordance with the **Statement of Use of System Charges** and **Statement of the Use of System Charging Methodology** [and adjusted as provided for in standard condition C13 of the Transmission Licence](#).