Richard Lavender
National Grid Transco
UK Transmission
NGT House
Warwick Technology Park
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Dear Mr Lavender

GB TRANSMISSION CHARGING: FINAL METHODOLOGIES CONSULTATION

Thank you for the opportunity to respond to the above consultation.

As you may be aware, Highlands and Islands Enterprise (HIE) is the Government's agency responsible for economic and social development across the northern half of Scotland. We have a keen interest in supporting the development of the renewable energy sector locally given the downstream economic benefits it will bring to both local businesses and communities. In fact over the last three years we have invested over £20million in the development of the renewables sector, through attracting inward investment, supporting local business diversification and assisting community involvement in this sector. Development of the grid and access to it for generators in the north on an equitable basis to others across the UK is therefore a prime concern for us.

HIE is a member of the Highlands and Islands Transmission Working Group which has been established to promote the interests of this area in relation to grid development and regulation. Other members include the local authorities of the Highlands and Islands (Shetland Islands Council, Orkney Islands Council, Highland Council, Western Isles Council and Argyll & Bute Council) along with the Scottish Executive, DTI, Scottish & Southern Energy and Ofgem (as an observer only). Detailed comments in relation to the consultation can be found below, and represent the views of both HIE and the local members of the Working Group.

Penal locational signals

We support the principle of cost-reflectivity, but believe that the NGT model derives charges for North of Scotland generators which take the principle of cost reflectivity to such an extent as to penalise generators who have limited or no scope for responding to such broad-scale locational signals. Government is promoting renewables for environmental and social objectives, and the North of Scotland is

expected to make an important contribution to meeting its renewables aspirations. An outcome which either compromises these targets, or results in revenues from renewables projects going to generators in England (as opposed to local communities in the Highlands and Islands) would be a perverse outcome.

The NGT model in Scotland

We have a number of concerns with respect to the viability of extending the NGT model to Scotland. The Scottish system does have some unique features, which are described in the consultation but which do require further work and clarification. Specifically, the treatment of generation spurs and the connection boundary.

Our reading of the consultation is that generation spurs greater than 2km length will be incorporated into UoS charging. We are concerned that NGT's model is not designed or optimised for radial circuits and that this requires further work. This is of particular concern for projects on the island groups, as proposals could suggest some alarmingly high TNUoS charges for island connections. We understand that the methodology does not currently include any mechanism by which the cost of new island connections can be considered and as a result we can only estimate the likely UoS charge for island generators. It is imperative that more clarity is provided on this, and assurances provided that the methodology can provide an appropriate outcome for island connections. This is required urgently as island projects are already suffering as a result of uncertainty over charging. Otherwise, we risk losing all prospects for substantial renewable generation on the island groups which in turn will impact on the Government's ability to meet its renewable energy targets.

There are issues with respect to the transfer to a different connection boundary which require further clarification, namely any discount which will apply on capital connection costs paid to-date.

BETTA Implementation Imperative

We are concerned that a less than ideal solution is being promoted by Ofgem and NGT in order to meet the "on paper" requirement of BETTA implementation by April 2005. BETTA was intended to remove uncertainty and the need for transitional solutions, but in the event we have a charging methodology which is not optimised for GB, and which may be subject to fundamental change, and we have many uncertainties which are likely to prevail post-BETTA. We are a strong supporter of BETTA because it was promoted on the basis of providing a stable, enduring framework which removed barriers to trade. This is not however, what is being delivered by April 2005 and we remain concerned about the impact of this.

Of course we recognise the need to press ahead as far as possible, but would note that the job will be far from finished by April 2005, and that Ofgem, NGT and DTI should maintain the momentum, and pressure, to implement BETTA as originally intended.

Ofgem Guidance

The lack of guidance from Ofgem on development of the methodology appears to have resulted in NGT being reluctant to adopt any solutions which deviate radically

from the already-approved England and Wales methodology. Without strong leadership the result is likely to be an inappropriate solution for GB.

Cost neutrality

NGT refer to "independent" analysis which shows a broad cost neutrality for generators pre and post-BETTA. To our knowledge, this refers to some very brief analysis performed by Ofgem which employs costs for export options which to-date have acted as a barrier to entry into the Scottish market. These costs are not borne in their entirety by independent generation projects in Scotland, and it cannot therefore be suggested that there is broad cost neutrality pre and post-BETTA, when BETTA is conceived to remove barriers to entry.

Suggestions for the Way Forward

While we are concerned by the proposed methodology, we are nonetheless conscious of the need for a charging methodology for the BETTA implementation date. We therefore strongly advocate the following:

- A re-adjustment of charges across GB such that north of Scotland generators pay a fair level of cost-reflective, rather than penal charge. New generators in the North of Scotland currently pay around £11/kW which includes provision for upgrades. This is therefore a useful indicative figure. We consider this to be far preferable to a solution which gives some English generators a windfall at the expense of consumers (who pay the costs of the Renewables Obligation and the proposed TNUoS discount), communities, Treasury (revenue-related business rates will be eroded), and, possibly, at the expense of meeting government renewables targets.
- Consideration of charging UoS on the basis of energy rather than capacity, as the current per kW charge arguably discriminates against low capacity factor generation (e.g. renewables) and acts against the achievement of energy-based government targets.

I hope you find these comments useful.

I am copying this letter to the DTI and Ofgem for information.

Yours sincerely

Bob Kass
Head of Key Industries at HIE & Chair of Highlands & Islands Transmission Working Group