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21 May 2004

Dear Stuart

Scottish Renewables Response to the National Grid consultation on GB Transmission Charging: Initial Methodologies Conclusion

Scottish Renewables Forum is Scotland's leading renewables trade body. We represent over 100 organisations involved in renewable energy in Scotland. Further information about our work and our membership can be found on our website.

Firstly, thank you for the opportunity to respond to this second stage consultation on development of a workable transmission charging regime to operate under BETTA.

We support these principles and feel that they are worth restating (see Ofgem Factsheet 25, March 2003). BETTA will:

- "Bring more competitive prices and greater choice to all electricity customers, particularly those in Scotland and the fuel poor, and
- Mean that renewable and other generators, particularly in Scotland, will benefit from access to a wider British market."

With reference to initial conclusions reached by NGC in this consultation, we find it frustrating that NGC have ruled most responses received as being outside of the scope of the "initial thoughts" consultation.

While we feel that some of the proposals will assist in supporting the principles of BETTA, we would have liked to have seen NGC being more proactive in responding to Ofgem's instructions to use the E&W methodology as 'the basis for consulting on the development' of GB arrangements.

Instead, you have assumed that the current methodology cannot be changed and have then consulted on minor changes to the parameters within the model.



We are still of the view that the methodology used by NGC to develop proposed charges is deeply flawed. The methodology has been shown to work within the more compact English-Welsh network. However, it is unsuited to application over a more dispersed network such as Scotland comprising extensive use of 275 and 132kV routes.

Furthermore, we are also of the view that the methodology is essentially backward looking. Change in the nature of GB generation is unavoidable, and the geographical location of available renewables resource is predominantly fixed. Regulation and charging controls should seek to reflect these fundamentals rather than frustrate the progress of necessary change.

Longer term, we are still of the view that a comprehensive review of the methodology in use will bring substantial benefits and certainty for all grid parties. However, in the short term, we accept that NGC wishes to have comments on the two scenario options derived from using the methodology. Cooperation of the regulator will be required if we are to see a more comprehensive review.

Scenarios A & B

In the consultation document two scenarios are presented. **Scenario A** includes a single GB expansion factor (or more accurately two expansion factors: one for lines and one for cables). Scenario B includes multi voltage expansion factors. Your consultation concludes that:

Scenario B provides more cost reflective tariffs

but that:

this option would be less stable to network developments.

On the other hand, your consultation also concludes that:

Scenario A provides more stable tariffs in order to better meet the relevant objective on competition, while retaining reasonable cost reflectivity.

Scottish Renewables is of the view that predictability and stability of charges must take precedence over cost-reflectivity. We would therefore support the **Scenario A** methodology which incorporates a single GB expansion factor.

In contrast, while Scenario B would provide greater cost-reflectivity (though we would note that the definition of cost-reflectivity is a matter of “methodological debate”), it would increase network instability. We would also contend that it would introduce unnecessary risk into the electricity market, particularly for projects being proposed in more peripheral locations.

This is essentially due to the fact that the wide differentials in charging across GB create high charging sensitivity, so that relatively small changes in generation patterns can produce significant changes in charging. Instabilities in Scenario B would have a further impact of creating financial uncertainty in the renewables market.

Furthermore, Scenario B would also be more likely to frustrate achievement of GB renewables targets, by making utilisation of renewables resources in peripheral locations much more difficult to achieve.

The Generation- Demand Split

While we have stated a preference for Scenario A, this does not mean that NGC should proceed on the basis that Scenario A is imposed without refinement.

In particular we would ask NGC to look again at the issue of the Generation-Demand Split.

Under Scenario B, you have proposed to move to a G/D split of 20/80. We note that other system changes – in particular the proposal by the DTI to reduce transmission charges on some peripheral renewable generation and recover this cost from suppliers - will impact on the G/D split. The proposal by the DTI to limit distribution charges in some areas and recover this cost from suppliers will have a similar effect.

Since both NGC and DTI appear to now be comfortable with an adjustment to the current G/D split, we are of the view that now is a suitable time to consider changes to the G/D split and bringing it into line with the common European practice of a G/D split of 0/100. Any work on a new charging methodology should give serious consideration to this issue.

Such a change would not, of course result in individual generator charges being set to zero but would result in a range of positive and negative charges, and therefore retain cost reflectivity.

Negative Demand Charges

Scenario A is also to be preferred as it avoids negative demand charges. Allowing negative demand charges would be inequitable for GB consumers, and also be a perverse response to issues relating to energy efficiency and cost-reflectivity.

We understand why NGC is seeking to constrain demand charges to zero: essentially the instability of the model leads to high charges that are overly sensitive to change. The model is also too short-term in nature.

We would call for charging reform to bring about implementation of charges that are applicable for a longer time period. A charging system that changes annually cannot be relied upon by investors in the energy market. We would call for a longer charge period – for example 5 years, which would create a period equivalent to that in distribution charging.

Constraining the Tariff Range

One means by which the methodology could be improved in this respect would be by constraining the overall range of tariffs. Not only would this ensure that the tariffs did not become disproportionate and impose an undue burden on particular generators, the action of the range limiter would also limit the exposure to future changes in the tariffs caused by changes in the pattern of generation and demand.

We would also question the manner in which the methodology weights and values different parts of the system. In particular charges proposed for Peterhead gas power station are likely to be prohibitive and fail to recognise or reward its key role in stabilising transmission and trading in Scotland.

With regard to the issue of scaling of Transmission Entry Capacity (TEC) for different types of generation prior to using it in the DCLF model, we believe that this would be appropriate. Some types of renewable generation, e.g., wind, are unable to increase or decrease their output in response to market signals and it is therefore unreasonable to assume that they will

be operating at peak output at the time of system peak. We would suggest that the scaling factors used for the calculation of DNC for licensing purposes form a sound basis for use in the charging methodology.

Moyles Interconnector & Northern Ireland

Also, we would question the treatment of the Moyles Interconnector in your consultation. It should be borne in mind that significant changes could occur in the UK. One such could be the registering of the Interconnector as a positive TEC. However, given plans to develop UK (rather than GB trading) – as evidenced by current development of a UK ROC market - use of the Moyles Interconnector may be critical in future trading between GB and Northern Ireland.

However, if Northern Ireland were to become a net exporter of generation into GB, then the balance of charges would change. In particular, transmission charges would increase across the whole of Scotland, meaning that Scotland would carry much of the financial burden of widening a GB system to a UK system. We would ask NGC to review this definition as part of the development of methodology. Our suggestion of a range constraint would limit the potential for such charge increases

Links to wider BETTA reforms

We would also like to use the opportunity of this consultation to raise other related matters. In doing this it is first important to note that for the renewables sector within Scotland, the likely impact of proposed charges from this consultation are irrevocably linked to issues raised by Ofgem under their *Smaller Generator Issues Under BETTA* conclusions document of May 2004 and by the DTI in their *Transmission Charging and the GB Wholesale Electricity Market* conclusions document of March 2004.

In their Smaller Generators conclusion Ofgem set a rebate for renewables generators connected at 132kV at between £2.50 and £3.50/kW: figures relating to the residual value charges proposed in your own consultation. Ofgem have proposed to offer these charges for three years.

However, we remain of the view that this rebate should be based on an assessment in the difference between Scottish transmission and English-Welsh distribution at 132kV. However, we note Ofgem are offering some rebate benefit to offset discrimination.

However, it is far from clear whether a suitable system will be in place within these three years to make such a rebate unnecessary. We would have wanted more clarity from Ofgem on how changes in the transmission system - as set out in the Renewable Energy Transmission for Scotland (RETS) study (such as line upgrades from 132kV to 400kV) - will trigger changes in grid classifications and remove rebates.

We feel that clarity in this issue is in the interest of NGC, particularly given the discussion about adopting charging based on single vs. multiple expansion factors. We would therefore call on NGC to play its part in encouraging Ofgem to provide greater clarity here. A mismatch between work of Ofgem and NGC will jeopardise investment in renewables in Scotland.

We would further note that the proposal to offer a rebate is not the best market solution: a more equitable solution needs to be found quickly through a more fundamental review.

In their response to the issue of charging and support for renewable generation at peripheral locations, the DTI have indicated their willingness to look at providing a cap or discount to

charges. It is our view that a cap would be preferable, as it would lead to less intervention in the market than a direct subsidy. We support the DTI's conclusion that support for renewables is necessary and will be engaging directly with the expected consultation on this issue, but we would encourage NGC to support calls for a cap on charging rather than provision of a direct discount.

Conclusions

In conclusion, we note that of the two, **Scenario A** is the preferred model of the renewables industry in Scotland. It allows for more stability and results in a more sensible charging spread. However, as set out above: we would welcome further work on refining the model as proposed in **Scenario A**.

We would like to thank NGC for their work to provide a workable set of charges within the constraints of the existing out-dated model. Longer term though, action is needed from NGC, with direction from the regulator, to review and implement a new methodology more suited to the modern pattern of generation in GB.

To ensure this happens, a formal timetable should be declared, as a priority, for dealing with expected changes, and reviewing the existing charging model to create greater equity and bankability on charges. Any interim arrangements should remain in place until such a time as any review and changes have taken occurred.

Once again, many thanks for the opportunity to comment on your proposals, and we look forwards to being involved in further discussions.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Maf Smith', written over a faint circular stamp.

Maf Smith
Chief Operating Officer