

Thursday 28 August 08

Mr Thomas Ireland  
National Grid  
NGT House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Dear Mr Ireland

### **Scottish Renewables Response: Charging arrangements for generator local assets**

Many thanks for the opportunity to respond to your consultation “Charging arrangements for generator local assets.” Scottish Renewables is the trade body for the industry in Scotland and we have over 250 members involved in the renewable energy sector, many of whom have a direct interest in electricity network issues. Scottish Renewables also benefits from the support of its Grid & Regulation Work Group, made up from the members of Scottish Renewables. This response has been put together following extensive consultation with the Scottish Renewables’ membership.

We have provided some general comments which relate to over-riding principles and implementation timescales. This is followed by some specific comments on the detail of Options A and B in the consultation.

#### **Context**

We note the importance of this consultation and the direct and significant impact on charges for existing and future renewable energy generators. We agree with you that the subject matter is complex, and acknowledge the support that you have offered, and given, in navigating the proposals. Scottish Renewables also very much welcomes the inclusion of indicative generator charges in this consultation, which has been helpful.

With the widened scope of these charging proposals to the Transmission Access Review (TAR) and the inclusion of a local charge as, potentially, a pre-condition for securing any access product, this consultation represents a very, very significant shift in application and importance from the issue of a design variation discount.

In this respect we have two very strong concerns:

- (1) The proposals have not been properly tested against the yet-to-be-finalised TAR access products and other proposed changes to transmission charging. We believe that this is very much “work in progress” and would be extremely concerned if these charges were to be implemented as an enduring solution under TAR.
- (2) If either one of these options were to be implemented for a design variation discount, there is a very strong possibility that further iterations or, indeed, fundamental alterations, would be required for alignment with the final TAR proposals. We believe that the uncertainty and disruption of multiple changes to charges is undesirable, and would support a postponement of the design variation discount for a more enduring solution.

Scottish Renewables recognises the intent behind a “local” charge and has some sympathy with the principles behind its derivation. We accept for instance that generators should have certain local

works in place prior to being eligible for a Connect and Manage-type access product. The division between what is “local” and “wider” is however quite notional in some of the access proposals, and this is reflected in the proposed Option B in the present consultation.

A design variation discount that attempts to target actual asset savings to a generator does not sit well with the concept of separating local and wider charges in National Grid’s charging methodology. We would question whether these two different aims are compatible, and whether it wouldn’t be more appropriate to find an alternative means of reflecting the savings from design variations and / or find an alternative means of charging for transmission access.

You will be aware that Scottish Renewables does not agree that the current TNUoS methodology gives the right signals to generators. In particular, the very high charges that the locational element of the charge produces for Scottish generators makes it very difficult to promote discussion on the cost-reflectiveness, or not, of changes to a methodology that itself, we believe is flawed. This is a very significant issue for our membership and we would very much like to see it resolved as part of the TAR process.

Scottish Renewables would urge that National Grid does not submit these charging proposals to Ofgem. Instead we would urge National Grid to submit a fully-formed package of access and charging proposals which fit together, and have been thoroughly developed and tested against existing and future uptake of transmission access. Scottish Renewables would also like the proposals to be tested against the incentives it provides for connecting at higher or lower voltages, and whether the signals are correct.

### **Design variation discount**

The Appendix 7 worked example for Option A demonstrates that it does not provide a cost-reflective discount for a lower security connection. We are concerned that this does not provide a sufficient signal to generators in weighing up the costs and benefits of different design variations. It is important to get the balance of costs and benefits correct, especially in view of the foregone environmental benefits of lost output and the potentially higher environmental impact of a higher security connection.

These issues will be exacerbated in the offshore environment. Furthermore the local generation charging proposals are being progressed in the absence of any clarity on offshore charges, and how the different costs incurred for different offshore connections will be incorporated into the transmission charging regime. The offshore case is the acid test for single circuit discounts and Scottish Renewables would very much like to explore whether a local charge and a discount on that charge gives the correct signals to offshore generators and the relevant Offshore Transmission Owner.

### **Option A**

Scottish Renewables agrees with the TAR Working Group consensus and National Grid’s view that Option A is, of the two, preferable. However we would stress that this is on a “least worst” basis.

Scottish Renewables is concerned that prospective generators will not be able to easily ascertain their likely charges from the present consultation. Furthermore, the definition of the Main Interconnected Transmission System (MITS) needs further supporting information, including a geographical map to assist generators in judging the distance of their projects from the MITS. It would also be useful to understand how the MITS might change under network development plans.

### **Option B**

Scottish Renewables considers that Option B is too complex, unpredictable, difficult to replicate and could suffer from volatility. It is also rather notional in its choice of the zonal hub. Furthermore we understand from the TAR working group that there have been problems in separating expansion factors for the local and the wider charge, resulting in “stretching” of the 132kV network.

**Other comments**

For both of the Options, Scottish Renewables is concerned that they have not been properly developed and tested. We would anticipate that further iterations on the methodologies will be required prior to implementation, and would question whether consultation on what is effectively 'work in progress' is appropriate and due process. This issue goes wider than the current consultation. We recognise the time pressures, and we will be making the same point to Ofgem and BERR.

The diagrams on page 6 of the consultation show the recovery of different 'cost' elements under the existing methodology and Options A and B. There is a variance of £85 Million in the Residual between the existing methodology and Option B, and a variance of £65 Million in the local charge between Options A and B. This amply illustrates the difficulty of defending one method of cost allocation over another on the grounds of cost-reflectivity. National Grid's methodology allocates costs according to which signals it chooses to amplify and which ones it chooses to socialise. It is very difficult to view this objectively where there are so many subjective assumptions and some rather notional choices which have very significant impacts on the final costs for individual parties.

Scottish Renewables recognises the importance of these issues and is committed to engaging constructively with National Grid in developing appropriate charging arrangements.

If you have any questions or comments, or would like to discuss this response, please do not hesitate to contact us.

Yours sincerely

**Jason Ormiston**  
**Chief Executive**  
Scottish Renewables