



**Development Services**

Director: George Harper

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Dear Mr Lavender

**GB TRANSMISSION CHARGING: FINAL METHODOLOGIES CONSULTATION**

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

Argyll and Bute Council as a local authority area has made a hugely significant contribution to the development of renewable energy in Scotland and the United Kingdom.

We recognise the importance of harnessing our abundant natural resource of water, wave and wind in order to contribute to a diverse, secure and substantial energy supply for the UK and to assist the Government in meeting its energy targets. Indeed Argyll and Bute is already contributing significantly to meeting these targets through its four operational wind farms producing approximately 100.35 megawatts. Consent exists for a further 64.5 megawatts. When these figures are taken along side the energy produced from hydro and wave power, (the first commercially operating wave power machine in the world is based in Argyll on the Island of Islay) this makes us a net exporter of renewable energy.

Faced with the problems of our physical geography and a declining population in many of our remote mainland and island communities, the Council also critically recognises the importance of harnessing and managing sustainably our untapped renewable resource in order to offset many of the problems faced within our fragile areas thereby creating economically and socially sustainable communities.

We share the interest of Highlands and Islands Enterprise (HIE) in supporting the development of the renewable energy sector locally given the downstream economic benefits it will bring to both local businesses and communities. We also share concern over the development of the grid and access to it for generators in our area on an equitable basis to others across the UK.

It is vital that the methodology adopted for transmission charging recognises the significant contribution which renewable energy developments in the Highlands and Islands can bring to meeting the Government's targets as well as achieving significant economic and social benefits to the remote rural areas in the Highlands and Islands. Renewable energy development presents significant opportunities to these areas, which will be seriously eroded if an inappropriate and inequitable charging methodology is adopted.



Argyll and Bute Council 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. Our response to this consultation is drawn from discussions held at the Working Group and reinforces the issues raised in the Highlands and Islands response to this consultation. Please find our detailed response below.

**In summary, this response makes two firm suggestions:**

- 1. Charges must be truly cost-reflective and not be a penal charge for generators in the North. The proposed system will give English generators a windfall at the expense of consumers, and communities in the North. Generators in the South will be paid more under the new system than they are under the current system because they are close to areas of demand. Ultimately this means that renewable energy developments in the Highlands and Islands will either be uneconomic or very marginal. This will inevitably result in less local benefit being derived from these developments and possibly will deter them altogether.**
- 2. Charging should be based on energy rather than capacity as the current method discriminates against low capacity generation. This refers to conventional versus renewable generation, the latter of which is a lower capacity and will have to pay for using the system even when it isn't putting electricity down the lines.**
- 3.**

#### **DETAIL**

##### **Penal locational signals**

We support the principle of cost-reflectivity, but believe that the NGT model derives charges for North of Scotland generators, which go beyond cost reflectivity and penalise generators who have limited or no scope for responding to such broad-scale locational signals. The UK 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 in the Highlands and Islands going to English generators (as opposed to local communities in the Highlands and Islands) would be a perverse result.

##### **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 island projects – some alarmingly high TNUoS for island connections have been suggested. 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 renewable generation on the islands, 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 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), Highland communities (community benefits may be eroded or at least not improved), 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.

Yours sincerely



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