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Dear Mr Ireland,

**Consultation Document GB ECM-11
Charging Arrangements for Generator Local Assets**

BWEA was established in 1978 and is the representative body for companies active in the UK wind energy market. Its membership has grown rapidly over recent years and now stands at over 419 companies, representing the UK wind, wave and tidal stream industries.

We are writing in response to the above consultation document that invites views on National Grid's proposals to improve the cost reflectivity of charging for assets local to generation connections.

Summary

BWEA does not support either of the proposals set out in this consultation. Whilst the title of the Consultation suggests a specific issue is being addressed, the proposals represent a substantial change to the TNUoS charging structure which would, if implemented, have a significant impact on charges for both existing and future renewable energy generators. By conflating the ongoing work on charging arrangements appropriate to SQSS design variations, with that of the programme of NGET sponsored CUSC modifications to meet the requirements of the Transmission Access Review, there is a danger that fundamental changes to the TNUoS charging structure will be imposed on stakeholders without the opportunity for the necessary proper consideration of both specific and wider issues.

As such, given the very significant shift in application and importance from the issue of a design variation discount alone, we do not believe that the proposals represent a proportionate response to the issues that NGET has set out to



address. We believe that neither proposal is appropriate for implementation and that they do not better facilitate the achievement of NGET's licence obligations. We suggest that the proposals contained in GB ECM-11 should not be pursued further at this time, and that the TAR process should be allowed to reach a conclusion so that any future proposals for change can be evaluated on a holistic basis.

Introduction

You will be aware that BWEA has fundamental concerns with the current TNUoS methodology, primarily with regard to the appropriateness of the signals that it provides to renewable generators.

Both options presented by National Grid seek to disaggregate the locational element of the use of system charge into a local charge and a wider charge.

We continue to believe that the current approach to determining the locational element of the generator use of system charge is not consistent with recent developments in the industry, in particular the growth in and promotion of renewable generation. The sums involved are not trivial. On a net basis, some £50 million of the transmission companies' revenue is recovered through the locational element of the use of system charge. However, but this is made up of a gross cost of some £190 million for northern generators and a gross payment of some £140 million to generators in the south. Hence, the locational charge, as currently constituted, represents a significant transfer of monies within the generation community and of course, contributes to the very high charges faced by Scottish renewable generators.

We believe that there is an economic rationale for a locational signal, but this should be balanced and proportionate, to ensure there are no perverse consequences, and stable over investment timescales.

Given our continuing concerns over a methodology that we believe is flawed, and wider impacts, we remain uncomfortable with National Grid's ongoing 'piecemeal' approach to modifying the charging methodology. BWEA is concerned that the proposals have not been sufficiently developed and evaluated. In particular, the proposals have not been properly tested against the yet-to-be-finalised TAR access products and other accompanying proposed/potential changes to transmission charging.

As such, the proposals do not provide a solution to the question of an appropriate design discount variation. This should be addressed as part of the overall enduring solution.

TAR represents an opportunity to develop an integrated package of access and charging proposals, which address ALL the issues that stakeholders have identified. These would need to be comprehensively assessed and tested against both the principles of the revised industry Code Governance regime and the objectives of wider national energy policy.

The opportunity should also be taken to ensure consistency of incentives and equality of treatment, between generation connecting at transmission and distribution level and the interaction between the two networks.

Comments on the Proposals

- We do not believe that the options presented will affect generator behaviour when it comes to making decisions about design variations.

For the options proposed, the tariff differential between a full and partial redundancy connection is broadly equivalent to that for the options proposed

under GB ECM-06. We note that, with respect to GB ECM-06, the Authority concluded that it had concerns that the proposed modification would be insufficient to incentivise generators to opt for a design variation.

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 evaluating the costs and benefits of different design variations. As the objective of the exercise is to correctly incentivise user choice, and the methodology used does not achieve this, we cannot support it.

- We object to the very short timescale provided for this consultation.

The Transmission Licence provides 28 days as the minimum consultation period but in light of the fundamental nature of the proposed changes proposed we believe that a longer consultation period is essential.

- The proposals will have a significant, unquantified impact on Offshore Renewable Generation

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. Transmission charging is a core issue for offshore generation and the delays in providing the industry with a clear charging regime, coupled with ongoing material changes to charges is not acting to support confidence. The offshore case is the vital test for single circuit discounts and a local charge and a discount on that charge MUST give the correct signals to offshore generators and the relevant Offshore Transmission Owner.

- The magnitude of the proposed changes necessitate a comprehensive Impact Assessment

In the light of the significant changes to the TNUOS charging methodology being proposed we believe that a full Impact Assessment must be carried out. If this is not provided by National Grid, to Ofgem's satisfaction, then the industry will look to Ofgem to provide an analysis of sufficient rigour.

- The proposals introduce discriminatory treatment of generators, dependent on a new definition of the MITS

Under the proposals, two classes of substation would be introduced for charging purposes, MITS and "local generator" substations. The criteria for determining into which category a substation falls do not have sufficient objective justification to allow endorsement of such a change. The proposal introduces discriminatory treatment between power stations connected to the MITS and those connected to local generator substations. It is unclear how existing and prospective generators would be able to assess their charges, both under a "as now network" and as both substation categorisation and "distance" to the MITS changed, as the network develops in future.

- The proposals are counter to espoused principles for charging

OFGEM has concluded that appropriate high level principles for charging are: Cost Reflectivity; Predictability; Simplicity; Transparency and the Facilitation of Competition. Since the outcome of the present consultation results in individual, two part TNUOS charges for each generator, the results are not simple, transparent or predictable. This is particularly true of Option B, the distance to zonal hub model.

Option A

Of the two modification options presented, **BWEA prefers Option A – Specific treatment of local generation, but only as the ‘least worst’**. Option A is the closer of the two options to a cost-reflective charge that ensures generation users pay for those infrastructure assets necessary for their connections to the transmission system.

Without prejudice to our overall reservations on the proposals, we have the following suggestions to improve the cost reflectivity of Option A:

- For the circuit component of the local charge, application of Transmission Owner (TO) specific expansion factors (as is proposed under Option B). Option A proposes a wider set of expansion factors to reflect the cost variance across different types of circuit constructed. One set of expansion factors are shown under Option A, which match those shown for National Grid and Scottish Power under Option B. Option B also includes expansion factors for Scottish Hydro Electric Transmission.

BWEA believes that the complete set of expansion factors (proposed under Option B) should also apply to Option A.

- For the circuit component of the local charge, application of a specific local security factor; hence accommodating partial redundancy in the connection design. Option A proposes that if the loss of the circuit would result in loss of access to the network then the local security factor applied is 1.0, whereas for other instances the local security factor will be charged at the existing GB average Locational Security Factor value, currently 1.8.

The local charge is intended to send a cost reflective signal to users specific to the provision of local infrastructure assets.

BWEA believes that the cost reflectivity of the local circuit charge should be improved by applying a Local Security Factor specific to those circuits.

Option B – Distance to Local Hub

BWEA does not support Option B – Distance to local hub.

This approach is largely conceptual in nature, rather than being based on the actual assets that connect a generator to the transmission system. Option B is overly complex, unpredictable, difficult to replicate and is likely to suffer from volatility. As such, we do not believe this would address the longstanding issue of potentially inefficient network investment arising from the (perverse) incentives built into the charging regime that deter users from opting for a design variation. Furthermore, this approach would further increase the instability and unpredictability of use of system charges at a time when significant investment is required in new generation capability.

The consultation also proposes under Option B to impose “local charges TNUoS” on embedded generators holding a BEGA, with a capacity of less than 100MW. These generators currently do not pay TNUoS charges. This is a fundamental change to the regime for embedded generation, and cannot be simply brought in under the limited aegis of transmission charging methodology amendment.

I hope these comments are helpful. If you would like to discuss this further then please do not hesitate to contact me.

Yours faithfully

G Cooper

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For and on behalf of the BWEA and the BWEA Grid Strategy Group

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