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Dear Stuart

Response to the National Grid consultation on GB Transmission Charging: Initial Thoughts

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 important part of the implementation of the BETTA process. An understanding of proposals relating to likely charges is certainly useful in focussing attention and discussion of key elements of BETTA's development.

Scottish Renewables Forum supports the principles behind the BETTA project - which are worth restating (see Ofgem Factsheet 25, March 2003) - that 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."

However, it is our view that the charging methodology proposed in your consultation will frustrate achievement of these objectives.

Scotland is set to be one of the main contributors to the Governments renewable energy targets in the early years. It therefore has an important role in delivering power to ensure consumers get renewable power from their suppliers who are charging them for it whether it is delivered or not.

Such high charges for Scotland will however, frustrate achievement of this policy and therefore one of the central objectives of BETTA.



Taken alongside the recent Smaller Generators consultation, the combined weight of proposals would discriminate against all generators in Scotland, and therefore we would reject these proposals in the strongest possible terms.

Essentially, there are a number of key issues raised by your consultation that stem from not fully thinking through the results of simply extending the English-Welsh market to across GB. These are:

1. The methodology proposed produces significant price differentials across GB, leading to discrimination between generators at these points. It is not our view that such differential charging is justified in order to add cost-reflectivity to the charging system, and is too great to be justified in terms of the cost needed to manage the grid. For example, we calculate that the proposed methodology would impose 20% of all transmission costs on the 3% of the generation in the SHETL area.
2. The current methodology proposes a charging system that will be reviewed and changed each year, depending on changes in supply and generation in different parts of GB. To do this would remove any certainty in charging, and frustrate developers trying to finance projects. A lack of certainty means a lack of investment from wary financial institutions.
3. The methodology attempts to send locational/cost-reflective charging signals. We accept this as an important part of grid management and have no quarrel with the principle of locational charging.

However, the charges proposed are punitive in nature, because they only consider a small number of issues relevant to National Grid and Ofgem, and exclude issues relevant to the wider electricity industry (essentially other factors that also influence decisions on plant location: e.g. planning, presence of other infrastructure, high levels of resource).

This range of locational signals needs to be balanced, so that no one signal makes all others irrelevant. If this is not the case then the danger is that management of existing and development of new generation will be at a higher cost to generators, energy consumers and ultimately to "GB plc", while apparently being seen as cost-reflective and efficient by the grid operator and the regulator.

Essentially the NGC approach will lead to the following:

- a. Generators will try respond to locational signals, so will attempt to initiate a large scale shift of generation to positive signal areas, resulting in large expenditure from duplicating investment (e.g. in current plant)
 - b. Generators will not be able to relocate due to other constraining factors, e.g. planning
 - c. Generators will either continue to operate existing plant in high charge areas, and pass on costs to consumers, or alternatively mothball plant that becomes uneconomic.
4. In noting the above however, we would like to point out a weakness in the proposed locational signal approach. High charging differentials are obviously there to encourage generators to locate closer to areas of high demand. However, because it is proposed such charges are reviewed annually, developers will not be able to rely upon positive incentives, as connecting into new areas will remove or progressively reduce incentives after each annual charging review. This means that proposed incentives are actually mirage incentives, as they will disappear once claimed. Instead charges need to be set

and reliable for a period of time, to ensure that they are bankable and can work to guide investment. If not, then they actually provide a stick but no carrot, which is an unbalanced approach.

5. The proposals create discrimination between Scottish-based generators and English-Welsh equivalents. The bulk of renewables projects in development in England-Wales will be connected to the distribution system, so will be exempt from such proposals, or may receive payments in recognition of their “embedded benefit” to the distribution system. Scottish generators will have no such protection due to the different classification of 132kV.

It will therefore be important for NGC to work together with Ofgem to ensure that the methodology results in charging that removes discrimination between parts of GB. The current methodology does not do this, and is therefore counter to the principles of BETTA.

6. The group of generators most exposed will be independent and smaller developers. For example, one of the consequences of NETA was the concentration of generator and supply companies, as only the larger companies had sufficient project portfolios and spreads of interests to ride the rollercoaster that NETA initially became. There is a role for small and large companies in this market, but larger ones would have the ability to ride out such charging, while smaller ones might not.
7. Such charges do not take into account wider issues relating to the management of the grid and achievement of UK Government Energy Policy. It is our view that the proposals will be bad for security of supply, because generators may have no option but to mothball plant in high charging areas. This might lead to a significant drop in capacity.

Furthermore, if thermal plant is removed due to high charges, this will take away the important balancing plant needed to accommodate renewables on the grid system. This, combined with higher charges making development of new projects problematic, will frustrate attainment of UK Government and Scottish Executive targets on renewables.

If such a charging methodology jeopardises achievement of wider targets and objectives, the only option will be (a) scrapping targets or (b) providing extra funding to ensure delivery of a stable energy supply. Such extra funding will be provided by the taxpayer or consumer, all in the name of ensuring cost-reflectivity.

We would seek to adjust the proposed methodology in a manner that can ensure resultant charges are non-discriminatory, bankable and reliable, and will not frustrate achievement of wider energy policy objectives.

It is clear that the proposed locational signals methodology is unworkable and will act as a barrier to development in Scotland. Instead we would recommend the following alternative:

1. Access to a GB transmission grid should be charged using postage stamp principles, meaning that all generators pay the same charge per unit of electricity put onto the grid, irrespective of location.
2. Ofgem/DTI/NGC should then introduce a separate or supplementary charge to this main transmission charge. This secondary charge can be used to support generation at certain locations, but should be **capped** so that this supplementary charge cannot be greater than the main charge (i.e. the overall charge could not be 100% higher or lower than the main charge).

3. These charges should be bankable – i.e. not be “mirage incentives” but be achievable and set for sufficient time to give project certainty and allow new projects to be financed. We would recommend a minimum of five years, though would call for up to ten years as providing greater certainty. Such a charge would apply from time of first generation over the agreed period, and the charge should be set at the time of signing the relevant connection agreement.

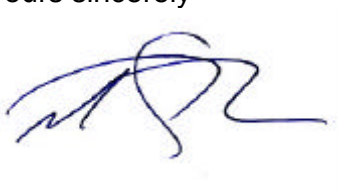
If a new generator changes the balance of supply-demand, then the next generator signing a connection agreement would pay a revised charge (but again, one that is capped and bankable).

All generators currently on the system, or with connection agreements should be given terms that ensure current agreements are honoured. We would recommend that existing generators are offered a minimum of 5 years at current tariff levels. If not, such generators will be treated inequitably, given their investment was made in light of best knowledge at the time. Such things cannot be adjusted retrospectively.

4. National Grid, as the company which will have responsibility for the GB grid, should be given an additional duty/responsibility in its licence (from the DTI) to ensure that its work helps support wider UK Government energy policy. At present, National Grid is forced to work against achieving UK Government policy on renewables, as this is outwith its licence.

I trust that our views (above) are of use to you in assessing your Initial Thoughts to GB Transmission Charging. We note that the consultation sets out a two-stage consultation with NGC coming back with a more developed charging statement in light of comments received. However, given that such proposals are a long way off the mark in terms of what is needed to make a GB Transmission System workable, we would call for an extension of this, to ensure that there is sufficient opportunity for generators to be able to review and comment on this set of revised charges in March.

Yours sincerely



Maf Smith
Development Manager