

**National Grid consultation
Scottish National Party Submission
17 September 2004**

Transmission Charging

- **Charges must not unfairly target Scottish Generators**

Under Option B of the access to grid pricing proposals Scottish generators could see their transmission prices rise from £5.44¹ to as much as £20.54 per kW, while generators in the south of England could receive subsidies of up to £10.60 per kW².

Scottish Generators thus will be effectively paying all the costs of transmission effectively subsidising English generators to the tune of £70 million.³

This situation could be easily solved by reducing Scottish charges by an average £10 per kW and increasing the overall charge for English generators by just £1 per kW.⁴ In contrast sustaining a position of inequality could even face a legal challenge: The European Directive on the Internal Market for Electricity (Directive 2003/54/EC) states in Article 23(4) that "Regulatory authorities shall have the authority to require transmission and distribution operators, if necessary to modify the terms, conditions, tariffs ...to ensure that they are proportionate and applied in a non-discriminatory manner."⁵

- **The 'interconnector' charge must not be replaced with another unfair charge.**

One of the Government's four major aims for its Energy Policy is to create a more competitive UK wide industry. The 'Interconnector' between Scotland and the rest of the UK has been a stumbling block to effective competition but Option B charges if they in turn are introduced will be so to. These proposals make it clear that instead of removing an obstruction, this Government is perfectly happy for this inequality to be perpetuated in a different guise under this system.

- **Locational charging is not resource efficient**

Locational charging is based on a misconception. The desire to locate energy generation nearer to the population centres can have a superficial attraction. However it completely fails to take into account that the most efficient areas for energy generation, and in particular renewable energy generation, is in remote areas.

¹ Scottish and Southern Electricity July 2004.

² National Grid Company 20 August 2004 'GB Transmission charging: Final Methodologies Consultation'

³ Scottish Renewables Forum, September 2004

⁴ Scottish Renewables Forum, September 2004

⁵ http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_176/l_17620030715en00370055.pdf

In other words, instead of letting comparative advantage dictate where energy is produced in a manner which would be beneficial to all, locational pricing attempts to second guess the market place by using effective subsidies or taxation to force energy production into less resource efficient areas.

Losses through transmission are only between 2% and 4% depending on distance. While locating power stations in locations with greatest resources deliver 25-33% more power. This implies that a 1GW wind farm with 50% capacity will lose 10 MW but as a result of improved efficiency will generate 100 to 150 MW extra energy.

- **The Charges will mean that many renewables projects are not able to go ahead.**

The Government has pledged that it will work towards cutting emissions of carbon dioxide by 60% by 2050, indeed this was one of the initial aims of the Government's Energy Act. As part of that it is planned that by 2010 10% of the UK's energy sales would come from renewable sources.⁶ Option B in the charging proposals will be a major obstacle in the achievement of these targets and it is significant that Ofgem officials have refused to confirm in meetings that their proposals do not have a basis in the Government's own energy targets.

Transmission charging is likely to cost the Beatrice Offshore project (Europe's biggest renewable research project) an additional £20 million per year.⁷ Talisman, one of the companies behind the project said of the proposed charges: 'It is bad news for us and for anyone producing renewable energy in remote parts of Scotland. The changes Ofgem is talking about are 50% to 60% higher than we thought. At the moment it is the biggest single threat we see and it could threaten the viability of the project.'⁸

- **Scotland's huge renewable energy potential could be ruined**

Scotland has the potential to become Europe's renewable Energy Power House. Scotland is the windiest country in Europe⁹ with 25%¹⁰ of Europe's wind resources. Scotland also has 10% of Europe's wave capacity¹¹ and 25% of the total tidal capacity of Europe. The Pentland Firth has been described as the 'Saudi Arabia' of tidal power.¹² Scotland already has the world's first commercial wave power station – Limpet, off the Isle of Islay, which has been generating since 2000.¹³

⁶ <http://www.dti.gov.uk/energy/renewables/policy/overview.shtml>

⁷ Talisman, SSE briefing June 2004

⁸ Quoted in The Sunday Times 5 September 2004

⁹ British Wind Energy Association.

¹⁰ Forum for Renewable Energy Development in Scotland (FREDS)

<http://www.scottishrenewables.com/renewable.asp>

¹¹ FREDS website <http://www.scottishrenewables.com/renewable.asp>

¹² Ian Bryden Professor at Robert Gordon University

¹³ <http://www.scottishrenewables.com/renewable.asp0>

Scotland has the infrastructure and the professional expertise garnered from the oil and gas industry to create an important renewables industry. Denmark has a £4 billion per year export industry employing more than 15,000 people, Scotland could replicate this success.¹⁴ The renewable energy industry is expanding and will be more so in the future. Jobs in the wind energy industry are expected to be over 35,000 by 2020.¹⁵ (This includes onshore wind jobs) Government policy is proven to influence the development of renewable energy projects, e.g. subsidies for wind farms helped the industry to grow worldwide by 40% in 2001.¹⁶

- **Capping the charges is insufficient; Any cap must be on a project based basis**

The Act establishes a temporary cap on the transmission costs however this cap would be for a maximum of ten years after the Act comes into force and therefore unlikely to help long term renewable projects.¹⁷ Both Alex Salmond and Mike Weir MP proposed amendments to extend the cap until the end of the life of the projects, or to have the possibility of renewing the cap indefinitely.

The fact that a cap is deemed necessary is indicative of the fact that there is a serious problem.

- **The whole of Scotland's energy industry is under threat**

The Oil and Gas industry supports over 100,000 jobs¹⁸. The combined cycle Gas fuelled power station in Peterhead, is the most technically efficient in Europe and represents a particularly useful support for Wind power as gas can be regulated to work in symbiosis with renewable generation. However Option B will impose substantial costs onto Peterhead and indeed could undermine its viability. Similarly other conventional power stations in Scotland could face sharply rising costs.

- **Charges will have a negative and unfair affect on the Scottish consumer**

Recent energy price increases, such as the recent hike announced by Scottish Power of 9% and 12 % for electricity and gas respectively. Since 1990 consumers in England and Wales, paying by standard credit, have seen prices fall by 31.4% in real terms whereas consumers in Scotland have seen reductions of 20%. In 2003 consumers in England and Wales paid, on average, £21.00 less than those in Scotland.¹⁹

¹⁴ *Sunday Express* 'Wave Energy Powers Up' 1 August 2004

¹⁵ Renewables UK, (part of the Dti) report January 2004

¹⁶ Friends of the Earth paper 'Tackling Climate Change without Nuclear Power' September 2002

¹⁷ Clause 185 of the Energy Act 2004.

¹⁸ National Planning Framework for Scotland', Scottish Executive, April 2004.

¹⁹ Malcolm Sayers, Energy Watch Scotland.