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20th January 2005

Dear Richard,

Scottish Renewables SRF Response: GB Transmission Charging: Use of System Charging Methodology Revised Proposals Consultation

Scottish Renewables Forum (SRF) is Scotland's leading renewables trade body. We represent over 120 organisations involved in renewable energy in Scotland. Further information about our work and our membership can be found on our website.

SRF welcomes the opportunity to respond to this consultation on GB transmission charges. This response has been prepared in collaboration with the British Wind Energy Association.

Firstly, thank you for the opportunity to respond to this consultation on GB Transmission Charging and the Revised Use of System Charging Methodology to operate under BETTA.

We support these principles and feel that they are worth restating (see Ofgem Factsheet 25, March 2003). 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."

Summary

SRF has participated actively in the consultation process leading to these revised proposals for a Use of System Charging methodology and remain of the view set out clearly in previous responses.

SRF continues to believe that the GB Use of System charging methodology should incorporate the following features:



- **A single expansion factor;**
- **A non-locational security factor;**
- **A wider tolerance band to be used in the setting of zonal boundaries; and**
- **A G/D split of charges of 0/100**

The current consultation focuses on 4 specific aspects of the methodologies namely:

- Negative demand tariffs, and the Generation/Demand revenue split
- The simplified approach to calculating expansion constants
- The simplified approach to calculating lower voltage expansion factors
- The treatment of circuits with spare capacity

This SRF response concentrates on the first of these topics, as well as associated issues surrounding balance & use of system charges, overall cost and stability. However this should not be taken as support for the other aspects being consulted upon nor for the remaining measures contained within the proposed methodology.

In particular, SRF continues to believe that the charges that would apply under the proposed methodology are not cost reflective and that the locational differentials in charges are too large. We are concerned about the high impact of these charges upon Scotland.

Whilst we accept that NGC is not in any way targeting Scotland, we are of the view that as GB System Operator NGC has a responsibility to ensure that all parts of the GB System find the charges workable and non-punitive. Currently the charges are punitive in Scotland, which will mean some generators will not be able to work with this system.

Negative Demand Tariffs

SRF notes with some concern, Ofgem's view that negative demand charges are not necessarily a problem. SRF continues to believe that whilst the transmission charging methodology continues to incorporate triad charging arrangements and continues to apply to demands with non half hourly metering, negative demand charges send the wrong signals to the market and are therefore inappropriate.

We believe that NGC shares this view since your latest proposal provides an artificial constraint to prevent negative demand charges. However, we believe that your previous proposal to avoid negative charges by amending the G/D split is a more appropriate step.

Also, we would note that the change in the latest proposals demonstrates an ability to use the methodology to remove potential problems within the transmission charging debate. We would question why the methodology has been adjusted to remove a half of the incentive system that cost-reflectivity is meant to create. The end result is a charging system that penalises generation in Scotland but fails to reward demand locating in the area.

Finally, NGC seeks to pre-empt criticism of its proposal to reduce demand tariffs across GB by up to 2p/kW by noting that this "could also be perceived as a cross-subsidy". We would disagree with this analysis, given that it will be Scottish demand that is hardest hit here, so in relative terms it will be English-demand that benefits. If Scottish demand is having a benefit taken away, then the benefit from this needs to be seen in Scotland and not passed across GB.

The Generation /Demand Split of revenues

SRF continues to believe that the G/D split should be amended to a 0/100 position. This would be in line with European development of transmission charging and would at the same time address the potential distortion of negative demand charges.

We note the views ascribed to NGC and Ofgem in this consultation that notes that the costs to end consumers would be unaffected by the level of the G/D split, since changes to generation charges will be reflected in adjustments to wholesale prices. SRF supports this view. As a result we believe that the G/D split should be set to a level that has some theoretical justification.

Both the current 27/73 split and the previously proposed split of 10/90 are essentially arbitrary. On the other hand, a split of 0/100 would be in line with European development, would avoid the potential for negative demand charges and would also be beneficial to generation, such as renewable, which have lower load factors than the national average for generation.

National Grid Company has itself recognised the need to move back from a 27/73 split at least to a 10/90 split over time. Given this, we cannot see the purpose in beginning the new set of charges with the split in the wrong place when movement is expected by all parties.

BSUoS charging methodology

The proposal for BSUoS and embedded power stations has not been consulted upon previously. We welcome the clarification provided on the 20 January by NGC on BSUoS. This will be helpful and we will study the statement for clarification. However, as the time we received it means we have not had sufficient time to look closely at the issue it is worth stating that our key questions on this are as follows:

Have there been any requests for such a change? Is it necessary at this point in time? Are there arrangements for direct payment of triad benefit to embedded generators? It is already possible for embedded generators in E&W to nominate another party to take responsibility for their output, and it is not made clear why NGC consider this proposal necessary for Scotland. Also, if embedded generators sign a Bilateral Embedded Generation Agreement (BEGA)¹ would the supply companies purchasing their electricity lose any of the benefit from buying and aggregating supply and demand?

The Cost to Scotland

Whilst issues of cost seem outwith the remit of National Grid, we would again like to point out that we have major concerns about the extent to which high charges will penalise generation in Scotland.

Based on assessments of the current model, the charging burden for Scottish generation will be £140m, compared to a charging burden for England & Wales of £148m. However, Scottish generation accounts for only 13% of the total GB generation.

This means that Scotland will be paying a substantial element of GB charges (on average 6 times that of in England-Wales). This has been justified by NGC and Ofgem on grounds

¹ see the Ofgem Consultation on the Treatment of Embedded Exemptable Large Power Stations under BETTA

of cost-reflectivity. However, to SRF the charges do not seem proportionate when current Scottish charges are at a maximum of £12/kW or half the current maximum. Cost-reflectivity should not be a goal in itself, but instead be a tool to drive system efficiency. Instead we see over-efficiency in the system which will disrupt system stability and only increase the costs of generators to the point where government targets are jeopardised or consumers given an increased bill as the cost of generation rises.

A key purpose to BETTA is to open up a GB market for all, and we remain of the view that the price of this market opening up will be too high for many generators.

Ensuring Certainty of Charging

An ongoing concern remains the lack of certainty in charging. Many developers of renewable schemes will raise finance to help cover the development cost of a project. However, lack of certainty about charges will lead to a higher cost of borrowing for these projects, thus increasing the cost of projects, and ultimately increasing the cost of generation to GB consumers. Thus the fact that the charges will be reviewed annually, and charging boundaries reviewed periodically means that costs look very uncertain from a financier perspective. Such uncertainty will be particularly damaging for independent developers or community led schemes.

To overcome this, irrespective of the charges on the table, certainty is needed. SRF would like to see more work by NGC on how boundary lines for charges can be defined more clearly and on how charging periods can be established - similar to the situation in distribution - that can be relied upon by generators.

Developing a more robust set of charges

It remains our view that the current set of charges will penalise generation in Scotland and in particular the Highlands. Furthermore, they do not address how the following issues will be resolved:

- Charging for transmission to Scotland's islands
- Integration with embedded generation that "has sight of" the transmission system
- Integration with the Distribution Network Operators charging systems
- Contractual and constraining arrangements initiated by DNOs as a result of BELAs and BEGAs coming into force
- European Harmonisation of Charging
- Removing transmission discrepancies once interim support ends
- Stability of charging

We also note that our shared priority is successful implementation of BETTA and that the present proposals reflect the short timescales before us for implementing BETTA, and the lack of clarity on whether NGC could or couldn't develop radically different proposals from the outset.

We continue reject the argument that the methodology will be suitable for GB because it worked for E&W. Adding Scotland onto England-Wales has fundamentally changed the geographical shape (the network is now twice as long but no wider) and technical structure (an extensive 132kV network and greater proportion of 275kV in Scotland) There are also historic and current differences in both design and operating standards of the network. NGC have not satisfactorily resolved the ongoing problem of this lack of homogeneity in two networks now being fused together.

We would therefore urge NGC, in partnership with Ofgem to commit to look at the system of transmission charging afresh once BETTA comes in. There is a need for Ofgem to commit to such a piece of work and set out a timescale for its delivery so that generators, users and consumers have peace of mind about how all can engage in the debate to move towards a robust-long term solution.

It is also clear the situation at BETTA go-live will be the result of compromises struck to meet the timetable.

We would also request that a working group is set up after BETTA go-live to consider ongoing charging reform. Such a group should include expertise on renewables, the Scottish system and independent expertise on NGC's model itself. The group would inform on the methodology itself, help develop proposals for the islands, and inform on applicability of charges for embedded generators. Adoption of its proposals should be subject to better governance than the decision of NGC alone.

Finally, it must be said that we are disappointed that at the end of a long consultation period, issues such as some of those set out above are still to be resolved. Much of what we have said above will depend on Ofgem's conclusions on the EELPs consultation, which arrived late in the day, and which seems to stem mainly from a late realisation from NGC and Ofgem that there are indeed differences to the Scottish market that cannot be managed by application of the existing English rules. The fact that consultations such as EELPs are emerging so late in the day demonstrates a lack of foresighting to assess all relevant issues facing NGC in your stepping up to the role of GB System Operator.

The issue of transmission charging has also been discussed for over a year now, yet issues raised by Scottish Renewables are still to be dealt with, and we are now faced with the choice of accepting a set of charges to ensure BETTA can be implemented smoothly, or rejecting BETTA because the charges are inappropriate and punitive.

It is therefore disappointing that even at this late stage in the consultation, little more than 2 months before go live, our understanding of how BETTA will work is still incomplete, so our responses to remaining issues are still clouded in uncertainty because key issues - which should be decided upon and be understood - are still in discussion.

If you have any questions please feel free to contact me at any time.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Maf Smith', written in a cursive style.

Maf Smith
Chief Executive