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Dear Richard

**GB Transmission Charging: Use of System Charging Methodology. Revised Proposals Consultation.**

Highlands and Islands Enterprise (HIE) is the Government's agency responsible for economic and social development across the northern half of Scotland. As you are aware HIE has responded to previous consultations on use of system charges both for its own interests and on behalf of the local members of the Highlands and Islands Transmission Working Group (e.g. Western Isles, Argyll & Bute, Shetland Islands and Orkney Islands Councils). Once again we wish to take the opportunity to comment on the most recent proposals developed by NGC.

NGC will be aware that the principal concern of HIE and its local partners is that of the effect of the proposed charging regime on renewables generation in the north of Scotland, and in particular on the islands. These concerns relate to the enduring uncertainty going forward into BETTA, the high charges in the north of Scotland, and the indications of extremely high charges for the islands. Widespread renewable energy development is a key priority for HIE given the downstream community and business opportunities that will accrue to the area from it. It is strategically important to us therefore that the charging regime does not discriminate against projects in the north of Scotland, and that the best resource areas for renewable generation in the UK are not sterilised by it.

NGC will also be aware that parties, including HIE, have been frustrated by the process of consultation, which does not appear to have been able to accommodate any significant changes to the England and Wales charging model.

This response does not dwell on these issues, on the premise that they are well known to NGC. Further work will clearly be required to improve on the current situation, and our comments are with this in mind.

### BSUoS charging methodology

The proposal for BSUoS and embedded power stations has not been consulted upon previously. We were not aware that there had been any requests for change and therefore question whether the proposed change is necessary at this time. We would also be interested to know whether there are 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.

### Promotion of competition

Renewables generation, and in particular wind energy, is providing much of the new capacity in GB at present, and is contributing to overall generation diversity. An adverse effect on these generators will have an effect on competition, both within the wind industry and within the generation sector as a whole.

### Effect on customers

As HIE has previously noted, customers will not be well served by proposals which compromise the Renewables Obligation (through rendering projects uneconomic), or by proposals which dramatically reduce the scope for offering “community benefits” to host communities (by rendering projects much more expensive as a result of the charges because of uncertainties which increase the cost of debt provision).

### Negative Demand Charges

The prospect of zero or negative demand charges raises a number of questions. Very broadly speaking, it appears that those areas which are net exporters of electricity receive lower demand charges, under NGC’s model. In effect areas receive a benefit for hosting more generation plant than is required to meet the needs of that area. Some renewables generators have explored the options around offering lower electricity bills to communities hosting a generating station, but there are regulatory / administrative obstacles to such an arrangement, including a requirement on suppliers not to be discriminatory in offering tariffs.

Notwithstanding the arguments on the level of the charges on generators, and whether these are cost reflective or penal, a mechanism which transferred payments from generators to communities, in the form of lower electricity bills, may well be of interest. This raises questions on whether lower TNUoS charges for suppliers will in fact result in lower prices for consumers.

Finally, we also have a concern in relation to the interaction of negative demand charges with triad benefits. In particular, the possibility of gaming by developers to maximise revenue earning. It is our view that further work is required by NGC and Ofgem to ensure that negative demand charging operates effectively and efficiently.

### Reinforcement costs

Table 2 in the proposals compares reinforcement costs and TNUoS tariff. HIE notes that to an extent these costs reflect NGCs current connection policy, which, if it were to allow constraint, would release more capacity. It would also be helpful to state the assumptions underpinning annualised costs and distance-related costs.

### Going Forward

It is clear that the present proposals reflect the timescales for implementing BETTA, and the lack of clarity on whether NGC could or couldn't develop radically different proposals from the outset. It is also clear the situation at BETTA go-live will be the result of compromises struck to meet the timetable. HIE considers that there will remain a need to develop proposals to better reflect the Scottish situation and the increasing prevalence of renewables plant on the system.

HIE is concerned therefore that after BETTA go-live, changes to the charging methodology are essentially at the behest of NGC. HIE would request that a working group is set up after BETTA go-live, to include expertise on renewables, the Scottish system and independent expertise on NGC's model itself. The group would inform on the methodology itself, 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.

I hope you find these comments helpful.

Yours sincerely

Elaine Hanton  
Head of Renewables