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For the attention of Ms. Lesley Nugent

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### **Open Letter - Derogations to facilitate earlier connection of generation – proposed interim approach**

Economic Consulting Associates is a consultancy that provides economic and regulatory consulting services to industry and government with many years' experience of carrying out economic and policy analysis in the UK and worldwide. ECA has undertaken more than 200 assignments in over 40 countries around the world.

We welcome the opportunity to offer some thoughts in response to your open letter.

#### **Non-discriminatory access rights**

An implication of the current situation highlighted in your letter is that there are different classes of generator in Scotland:

- ❑ **Generators with firm access<sup>1</sup>:** Existing generators connected before January 2005 plus Generators with an existing derogation based on an agreement or an application to connect prior to 1 January 2005);
- ❑ **Prospective generators with no current access rights:** who must await either a new derogation or the development of the transmission system.

We fully agree with your contention that “*there is [no] objective justification for differential treatment of generators based solely on criteria linked to a point in time*”. However, it is the firmness of these rights that causes the increase in cost borne by consumers.

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<sup>1</sup> You suggest that the generators who were already connected do not have defined long term access rights because they retain the option to stop paying for access at short notice. In fact, they do have long-term defined access rights but no corresponding long-term obligations.

## **The purpose of derogations from the SQSS**

One reason for granting the original BETTA derogation was that it would have been unfair to renege on the connection dates promised to generators before BETTA was implemented. On the face of it, it seems illogical that larger connection commitments could be made in Scotland before BETTA than after; creating a unified transmission system should have allowed more connections so that no derogation from the SQSS should have been necessary.

Of course, the reason why the derogations were needed is that the generators in the pre-BETTA Scottish system carried the cost of constraints on the Scotland-England interconnectors. With the advent of BETTA, these interconnector constraints were converted into a transmission constraint managed by National Grid through balancing actions in the now unified balancing mechanism, with the extra costs borne ultimately by all GB consumers.

Therefore, a first effect of BETTA was to grant a windfall gain to Scottish generators. Derogations to the SQSS extend that gain to new generators, which is a major reason why constraint costs are increasing. We fully agree with Ofgem that the enduring access arrangements are vital to redress the costs being imposed on consumers.

However, until the new access arrangements can be put in place, there is a continuing constraint cost problem regardless of whether the new derogations from the SQSS are granted.

## **An enhancement to the way forward**

One option we suggest involves the equitable pricing of NGET constraint management contracts: an ex ante model could be developed to measure the reasonable level of dispatch in Scotland and England on an "unconstrained schedule" as the basis for pricing of such contracts.

We agree with Ofgem that the short-term gains from earlier connection of 450 MW of renewable generation offers a benefit. We also accept that some increase in constraint cost will result. However, we suggest that this cannot be done in isolation from effective measures to restrain the extent of windfall gain to Scottish generators that has continued since BETTA was introduced. Granting of the derogation from SQSS in the absence of some claw back will not be equitable to British consumers.

Yours sincerely



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