ALCAN PRIMARY METAL ▪ EUROPE

Lynemouth Smelter
Ashington
Northumberland
NE63 9YH
England

Tel: +44 1670 393637
Fax: +44 1670 393919
www.alcan.com

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Mr D Halldearn
Director – Scotland and Europe
Ofgem
9 Millbank
London
SW1 P 3GE

Dear David

The Development of British Electricity Trading and Transmission Arrangements (BETTA) – Report on Consultation and Next Steps.

Alcan recognises the importance of the issues surrounding BETTA and welcomes the opportunity to comment on Ofgem's latest thinking. We will welcome the opportunity to contribute to the discussion as it not only affects our manufacturing operations in Scotland but also in Northumberland where all Scottish power generation is currently deemed to exist. Alcan is also seeking to develop new renewable on its substantial estates and BETTA is highly relevant for the long-term prospects of these.

We would welcome the opportunity to participate in the development of BETTA and ask that you consider this offer to assist.

Alcan is a major industrial user of electricity in both England and Scotland. As a direct consequence of this, it is also a distributed generator supplying its backup and seasonally surplus autogeneration to the public system. About 20% of its energy source is from hydro and it is pursuing projects for new hydro and wind on its extensive estates in the Scottish Highlands. This response focuses on the smelting and autogeneration business of Alcan in the UK but it also has other significant manufacturing facilities across the UK.

I) The policy context for international manufacturing companies with autogeneration

a) international competitiveness of energy intensive autogenerators should be a prime concern and should not be damaged by "signailing" of any sort such as imbalance costs or location.

"Signalling" means the imposition of costs through regulation over and above true economic cost in order to induce a particular policy-related outcome. There has been a preoccupation with the use of signalling by regulation both in the dual and marginal pricing of energy imbalance and in proposals for marginal pricing of transmission losses and auctioning connections. Whatever the merits of these for utility generators in an insular (sic) market, it is wholly inappropriate to send locational signals to manufacturing businesses through mechanisms written with utilities in mind.

Alcan competes in the international and highly competitive commodity market for primary aluminium. Energy is the major differentiating cost component and it is therefore imperative that the structure of the UK regulated market reflects economic factors, rather than policy signals aimed at UK utilities.

With regard to price, NETA artificially depresses the price available to small and distributed generators and this is therefore economically damaging to the backup supply of energy that is crucial to our aluminium business. This should be resolved before or as part of the BETTA implementation.

With regard to locational issues such as losses and connections, Alcan cannot respond It would relocate production to another country before moving South in the UK.

b) Locational signals should not be applied to generators that were constructed with private funds prior to electricity privatisation.

Many generators in unfashionable locations were sold at privatisation to parties that were alert to a change in policy on the location of new assets. The issue of transmission losses would therefore have been factored in some way into the prices paid for these stations. This was not so for Alcan which has always sold its surplus electricity to the local area.

Similarly, Alcan's assets were built prior to privatisation: stations built after privatisation with private funds were constructed with at least some warning as to locational issues.

"Grandfathering" affecting access rights or allocation of losses should be recognised in order to avoid discontinuity of policy towards Alcan's inward investment in the UK. Grandfathering should recognise the status of pre-privatisation investment of private funds.

c) The economic evaluation of Location and Losses issues (as opposed to policy "signalling") should recognise the benefits of local usage and distributed generation.

Alcan's present generation is "distributed" and it is Government policy to encourage more of this, partly to reduce losses and partly to increase system security. Further, Alcan is a significant landholder in England and particularly in Scotland. With Government encouragement we are exploring introduction of new wind and hydro generation on this land. It seems entirely inconsistent to encourage distributed generation and renewables on the one hand, and then apply charges that discourage generation in some areas or zones and not in others.

If renewable power is desirable then it is desirable wherever it is generated. It is counter-intuitive to discourage CHP in Scotland by locational signalling. The inconsistency of policy between locational signalling and encouragement of distributed generation needs to be resolved. Alcan believes that distributed generation should be seen as being used locally and grid-connected generation should be seen as the national user of the transmission system. Evidently, increased distributed generation can be said to displace local usage of grid connected power but this single dimension will be easier to address than overlapping and conflicting policy objectives.

d) Zones need to be redefined now in order to distinguish interconnectors from local generation.

The English and Welsh region is divided into zones. The Scottish interconnector is deemed to generate in the North East zone which contains Alcan's Lynemouth plant. The electrical system is "weak" because most stations have closed in this area but it is still deemed to be an area of excess generation. This arbitrary inclusion of Scotland in the North East of England should be changed prior to any calculation of zonal charges and in preparation for NETA. This principle should be applied to all interconnectors otherwise generators local to the chosen site of interconnectors are placed in unfair jeopardy and the interconnector is inadequately costed on its own merits.

Alcan recognises the importance of the issues currently surrounding the development of British Electricity Trading and Transmission Arrangements (BETTA) and welcomes the opportunity to comment on Ofgem's latest thinking.

Being both a purchaser and a seller of electricity, Alcan has been closely following the issues associated with BETTA and is very keen to contribute fully as the debate gathers pace over the coming months.

Despite its generation being connected to the distribution system, in common with all other distributed generation, Alcan will be affected by any changes to the arrangements for transmission access and losses.

2) Comments on specific areas of the consultation:

- competition in Scottish electricity markets
- arrangements for transmission access and losses
- participation and representation of small generators, and
- next steps and the way forward.

Competition in Scottish Electricity Markets

Whilst the retail market in Scotland is fully liberalised, the vertically integrated incumbents - Scottish Power Group (SP) and Scottish and Southern Energy (SSE) - still have considerable market dominance and competition in supply is not well developed.

This lack of supplier competition has meant that, to date, there has been no incentive for these two suppliers to offer commercial terms for the purchase of power from independent generators. Over recent times, this has resulted in Alcan experiencing difficulties in contracting for the export from its Scottish hydro generation plants and having to settle at contract prices which we believe to be below the true value.

Whilst one of the primary objectives of BETTA is to create a GB wholesale market, and hence introduce competition in wholesale generation, the need for this to stimulate and improve the competitiveness of the supply market in Scotland is equally as important. This may be of direct benefit to both small generators and to major industrial demand sites – both of which apply to Alcan.

In introducing BETTA, Ofgem should seek to avoid extending some of the problems caused to small generators in England and Wales by the dual imbalance price arrangement. In particular, an adequate market of last resort will be important in mitigating the impact of supplier market power (rather than extreme imbalance prices that tend to force small generators into entering into unattractive contractual arrangements with dominant suppliers).

Arrangements for Transmission Access and Losses

Alcan acknowledge that it is Ofgem's intention to introduce transmission access and pricing arrangements on a GB basis. We understand that in order to meet a target date of April 2004 for full implementation of BETTA, Ofgem is aiming to finalise, and have in place, new arrangements for transmission access and losses in England and Wales by 1 April 2003.

However, with the future of transmission access and losses for England and Wales presently in a state of flux, we have some concerns over how the interests of all affected participants - particularly small generation - can be properly considered in the time available. In the light of this uncertainty, we would request that Ofgem provides more detail on the process it intends to adopt with respect to the GB transmission access and losses part of BETTA, and how the timing of the arrangements in England and Wales will impact on the target BETTA 'go-live' date.

Any new arrangements for transmission access and losses will impact on the value of export electricity from distributed generation sites. 'Embedded benefits' have traditionally represented an important element of the value of small generator export (although this has been significantly eroded under NETA). The value associated with avoidance of transmission triad charges (triad benefit) is a large contributor to 'embedded value' and this should be recognised in the consideration of any new transmission arrangements which might eliminate triad charging.

Any changes to the treatment of embedded benefits as a result of reform of the arrangements for transmission access and losses should not further undermine the value of the embedded benefits to distribution-connected generators.

Locational Signals

Alcan is concerned over the intention to introduce locational signals for use of the transmission system. We believe that the introduction of locational signals for generation would seriously discourage distributed generators, CHP and renewables from locating in the North and would reduce the possibility of industrial development in the region.

The proposal for locational transmission losses would introduce locational signals to which some participants, such as distributed generation, could not respond – despite being directly affected. Under such a regime, existing distributed generators would have to be appropriately compensated for any adverse commercial impact – particularly any windfall losses.

Alcan is a major industrial aluminium smelting site. First and foremost it is an energy intensive user – not an electricity generator. The on-site generation provides security of supply to the industrial process – a level of security which is critical to the commercial viability of the entire operation and one which is not available from the local distribution network (restoration of external supplies following a network outage can take twice as long as the 'survival time' of the aluminium smelter). On this basis, it seems wholly inappropriate to make any suggestion that Alcan generation is inappropriately located and not required.

In general, with significant national renewable resource in the North – particularly wind, it would not seem appropriate to introduce locational signals which provide disincentives for generators to locate in these renewable resource rich regions. We would like Ofgem to clarify how it intends to reconcile this anomaly.

Since distributed generation provides support to the local distribution network, we believe that it should not be subject to any national locational signals.

Participation and Representation of Small Generators

Alcan believes that full participation and involvement of small generators is essential to the successful development and implementation of BETTA. We are disappointed with the very limited extent to which small generators seem to have been considered in the BETTA deliberations to date. Given Government's targets for renewables and CHP, we believe that the potential impact on distributed generation should be a fundamental consideration of the BETTA reforms.

Whilst there is some mention in the consultation document of the establishment of a number of 'expert groups' – it is not clear how these will operate and if this is the best way for participants such as Alcan to contribute to the design process.

Given its likely significance in the future operation of the GB electricity system, we would request that Ofgem, in its BETTA co-ordinating role, make special provision for distributed generators to contribute fully to the development process. Alcan would be happy to consider active participation in a BETTA distributed generation experts group.

Although small and distributed (non-party) generators have some degree of representation on the BSC panel, they have little or no access to the Connection and use of System Code (CUSC). We would ask that Ofgem consider this when reviewing how industry participants can influence the BETTA processes – particularly transmission issues which still impact directly on those who are not CUSC signatories.

Next Steps and Way Forward

In summary, Alcan would welcome the enhanced competition which BETTA ought to deliver but this support is conditional on the fair and equitable treatment of renewable and small generation. We believe that BETTA provides an opportunity to redress some of the inequities which NETA has placed on small generators and also to assist the Government in meeting its challenging renewable and CHP environmental targets.

Alcan supports the idea of augmenting the BETTA development process with seminars and expert groups – subject to full and proper involvement of the small generator community – as described above.

I trust this makes the Alcan position clear and we look forward to participating fully as this debate progresses. Please do not hesitate to get in touch if you would like to discuss the matter further.

Yours sincerely

Wyn Jones
UK Managing Director