SCOTTISH renewables
The Forum for Scotland's Renewable Energy Industry

Cemil Altin
Head of Price Control Review
Ofgem
9 Millbank
London
SW1P 3GE

22 August 2003

Dear Cemil

Response to the Electricity Distribution Price Control consultation

Scottish Renewables Forum is Scotland's leading renewables trade body. We represent over 80 organisations involved in renewable energy in Scotland. We have the following comments to make on the proposed reforms to the Structure of Electricity Distribution Charges.

This response builds on - and in some parts replicates - what we said to the earlier consultation on distribution charges. However, it is worth underlining and repeating a number of our original comments for emphasis.

May I begin by saying that Scottish Renewables Forum supports the reform of distribution charging and welcomes introduction of charging principles based on cost reflectivity; simplicity; ease of implementation; transparency; and predictability.

Our key concern however, is that the required upscaling of renewable developments should not be held back by insufficient signals to DNOs to facilitate new connections onto their networks. This being the case, we are also concerned that it should not be local customers of the DNOs who should fund these upgrades, if it is customers throughout GB who are benefiting from this work. Funding mechanisms to share costs of investment need to be developed by Ofgem, so that common principles in transmission and distribution charging are followed.

In making these comments, I would like to bring your attention to the consultation response to this that has been prepared by the BWEA. We endorse this position and trust that you will take this endorsement into account when reviewing their response. I will not replicate in total the BWEA's response, but would only emphasise the following key points:

1. **Competition in connections:** renewables developers are supportive of terms that offer choice in connection. We would also strongly support the introduction of "*standards of performance in certain areas such as the timeliness and quality of information provision*", as currently there is no effective recourse for generators to ensure this is achieved.

The Beacon, 176 St Vincent Street, GLASGOW, G2 5SG
Telephone 0141 249 6705 Fax 0141 249 6704
Email info@scottishrenewables.com
Web site www.scottishrenewables.com

2. **Revenue Drivers:** Scottish Renewables believes that it would be appropriate to incorporate a revenue driver linked to the connection of distributed generation, so that DNOs are suitably reimbursed for actively supporting and facilitating DG growth. While we accept that it will not be possible to accurately predict future DG growth, the uncertainty of predicting demand has also been highlighted in the consultation. Thus Scottish Renewables Forum would wish to see DNOs anticipating DG growth, and plan accordingly.

   This will be particularly important for Scotland where significant levels of new renewable capacity are expected. We would also note that other DNOs have much to learn from the experience of Scottish DNOs, who have long-experience of managing an active distribution network and balancing the demands of transmission and distribution.

3. **Treatment of additional investment:** an important measure of success for new distribution arrangements will be their ability to support achievement of UK Government and Scottish Executive policies on renewable energy, including increasing the amount of dispersed embedded generation connected to the grid. It is clear that within Scotland there will be substantial connection to the distribution system and the need for upgrades and investment in new distribution lines.

   To ensure a rapid increase of DG in Scotland, policies and prices should neither discriminate against existing generation, new generation or the customers they serve. Scottish Renewables Forum recognises that this is a difficult balance, because the physical grid infrastructure in place today was built and has been operated for a different set of drivers.

   To deliver UK and Scottish renewables targets large infrastructure upgrades will almost certainly be needed. Furthermore, these upgrades will be needed to support transfer of distributed generation to a GB – as opposed to a local – market. It will be difficult to balance charging these customers for assets designed to service a wider area, although at the same time customers should pay for the inevitable improvements to the security of supply, which in turn should encourage additional investment in those same areas.

   For this reason we are supportive of the proposal to create **Registered Power Zones**, and see it as a viable mechanism to support extra investment in key areas of Scotland, where large levels of new DG are expected. Our reservation, however, would be if established such Zones should not act as disincentives by introducing locational charging by the back door. Instead they should be used in a positive manner to encourage extra development and investment.

Alongside these specific comments, we would also note the following:

A. Looking at the wider issue of electricity reform across distribution and transmission, it is clear that the current BETTA proposals and alterations to the Distribution charging regime are going to have a large impact on the developing UK renewables market. Given the complexity of many of the proposed changes, we are supportive of the introduction of common principles to be applied across distribution and transmission, including adoption of shallow charging principles at all levels.

   We would note though, that it is often difficult for industry and its representative bodies to gain a clear picture of what a future reformed electricity market might look like. We would therefore urge Ofgem to publish an overview of how this future market (in particular the inter-relationships between distribution and transmission) will look and function. Following from this, industry would welcome an assessment of likely charging regimes and levels (distribution and transmission), to help it in assessing future financial liabilities and costs that will emerge as a result of these reforms.

B. Developers wish to see certainty in charging, and avoid regulatory risk, while not being discriminated against due to either location or time of connection. It is therefore very important from both an investment and financing perspective that Ofgem ensures developers are given clear and fair signals for the long term, and smooth transitional arrangements, where they are required, which plot the course of change clearly.

It will be damaging to the industry if reform of distribution leads to a dramatic increase in Use Of System charges. Investment decisions are taken for a 15 year period prior to construction so investors require certainty and are wary of Government or the Regulator "moving the goalposts". Any system which changes the risks associated with generation could have a further adverse impact on bank lending in this sector. The less risk banks associated with new generation, the lower the price will be for that generation, and therefore the lower the cost to the consumer.

It is therefore important to ensure the following principles are adhered to:

- Existing generators that have invested money in modern plant with a defined lifespan should not have to pay twice for the system they have connected to. There should be no double dipping.
- Where a generator can prove they have paid for assets and are therefore exempt from all or part of their use of system charges, these assets should be subtracted from the rest of the system running costs when being charged on to the rest of the users of that system. This will prevent Distribution companies from charging two sets of customers for one set of assets.
- If a generator has agreed a grid connection charge, which includes deep connection elements, prior to construction, and new rules come into force before the construction is complete; the new plant should be treated as if it were connected from the point at which it signs and agrees its connection agreement and not be subject to the new arrangements. This is important for financing purposes within the transition period. Contracting parties must be able to rely on existing arrangements until the new rules are in place, and be sure that these arrangements will not be altered or reversed if they go beyond a deadline date.
- Once a generating plant has been connected to the system beyond its original design life, or beyond the term of usually accepted for long term asset infrastructure finance, it could be deemed to be eligible for use of system charges. It must be accepted that at some stage generators have had the full financial return from any investment made in the system to which they are connected.
- If government policy creates a large demand for new generation, where existing infrastructure is inadequate, and upgrade is seen as a cost effective way to deliver the government's objectives; customers within that distribution area should not be expected to pay for the whole capital cost of the investment.
- Any charging system should be based on a fair division of costs between all customers on a system. This is best achieved by taking all the demand and all of the generation connected to the system and dividing it by the system cost. If this is done consistently throughout the country, it will become clear which of the DNO's are performing well, while also giving cost comparisons for urban and rural customers. As with the current arrangements within certain rural areas of the UK, it should be a principle that no customers pay disproportionate charges for electricity supply or the use of the system, where ever they are connected to the UK system.
- Investment signals to DNO's should encourage them to invest in new assets where demand is identified and fits with Government targets. This new system should allow strategic investment where a series of projects are likely to arise.

Currently, investment can be peacemeal and penalise “first users” who trigger construction of new distribution assets. Moving to a shallow connection policy partly resolves this problem, but equally important will be the investment signals given to DNO’s.

- Locational charging for use of system charges within DNO’s areas should be avoided, although the concept can be applied to the original investment stage, where generators may have to top up the use of system charge with capital payments in an area where large upgrade is required for relatively small incremental benefits or security of supply.
- The way in which NGC charge DNO’s for the interface with the transmission system needs to be reviewed so that charging does not lead to punitive pass-through charges to distribution users or generators.

  There needs to be an in principle commitment that where development takes place away from load centres, or where the existing grid is insufficient to cope with new connections that are being made to meet UK Government and Scottish Executive targets, local grid users are not penalised through extra electricity costs to support this upgrade work.

  This in principle commitment is important to ensure that the cost of new renewables is shared in an equitable manner. Given that renewables development in Scotland is assisting achievement of UK targets and is for the benefit of all UK electricity customers, it would be unacceptable that customers of Scottish DNOs should pay extra due to higher distribution charges or transmission charges that are passed on.

I hope that you find these comments constructive and of use. We remain committed to supporting ongoing reform of the electricity market and a supporter of the work Ofgem has embarked upon. If you would like clarification of any of the points raised above then please do not hesitate to get in touch.

Yours sincerely

Maf Smith
Development Manager