

Consultation on the changes to the transmission licences to implement GB transmission charging under BETTA.

Consultation response from Fred Olsen Renewables Ltd. (FORL)

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FORL are a renewable energy development company who develop own and operate renewable energy projects in the UK and Europe. They are 50% owners of 2 operating wind farms constructed under the NFFO and SRO arrangements totalling 36 MW and are in the final stages of construction on a 50 MW project built and financed under the current ROC regime. They have planning consent for a further 112 MW which is due to start construction in 2004 (completion in 2005) with further applications in an advanced stage on 146 MW capacity. They have registered for the second round of offshore wind farm development in the UK and are in the process of bidding for an option lease from the Crown Estate. In Europe they have consented 2 offshore wind farms totalling 250 turbines and own a number of operating onshore projects in Sweden.

FORL thank OFGEM for the opportunity to comment on the potential new regime for transmission licences and charging, as the regulatory risk associated with the ROC mechanism and the BETTA process will significantly impact on the amount of new renewable energy built in the UK market.

General Framework Comments.

The establishment of a single UK transmission operator is a central step in the BETTA process and key to the success of a transparent cost reflective and efficient market. The way in which the TUoS charging is applied and calculated will be a very important part of this new market, and to future security of supply. In addition the licence conditions which govern the framework against which the System operator sets prices are which are key ensuring stable transparent mechanisms, which are not subject to sudden change and regulatory risk.

Transmission Charging.

It is critical that the Small Generator's Consultation (now 6 months overdue) is published soon. Without some idea of costs relating to transmission and distribution use of system / contract liabilities, and an outline of where boundaries between the systems lie; it is very difficult to make meaningful

contributions in detail to this consultation. In addition it will be difficult for existing and new generators to lobby for the new legislation as it progresses through the House of Commons if the Small Generator's Consultation cannot inform and actively contribute to the debate.

1. The current system of transmission use of system charges in England and Wales is not properly cost reflective. Therefore this is not a good point from which to introduce BETTA charging for transmission use of system.
2. Although some form of cost reflective north south charging is logical, it is a crude tool, which is incapable of dealing with the complexities of a market which is guided by practical factors which are not related to load centres. The planning system does not work well to open market forces. Locational signals without check would simply lead to penalising northern renewable generation that could get planning, and reward areas that cannot. This leads to a very expensive system which fails to deliver anything anywhere. FORL suggest that a cap is introduced on all locational charges, which would allow a proper signal to be given to the market, but not sterilise other areas completely. In addition it would allow for the retention of conventional plant required to meet demand in any given area, thus protecting security of supply. From work done within the market FORL recommend a figure of £ 12 per kilo watt per annum. A cap would also allow banks and investors to make long term predictions on cash flows and therefore add stability to the market.
3. If areas within Scotland or the remainder of the UK become net exporters from the distribution system there should be a cap on the overall system charges which any generator would pay regardless of location. If Generation zones and generation spurs are to be treated as infrastructure for cost recovery, then there is the potential for large parts of the distribution network, surplus to a DNO's security of supply to be included for transmission charges. The cumulative impact of these charges could sterilise large areas for potentially viable renewable projects. It is important to understand how the interaction of the two charging regimes will work, and where the boundaries exist for Scotland together with Spurs and areas of net export, deemed to be surplus to the DNO's security of supply. If areas within Scotland or the remainder of the UK become net exporters from the distribution system there should be a cap on the overall system charges which any generator would pay regardless of location.
4. Location charging as outlined in the EU directives is a permitted form of cost reflective charging, not preferred or compulsory. FORL are surprised to see the reliance OFGEM and NGC place on this crude instrument (as applied currently in England and Wales). As currently operated FORL believe the locational charging without clear capping is arguably discriminating against renewable generation in the north, which is in clear contradiction of EU Directives on grid.
5. Any new charging Transmission Use of System structure should not discriminate against existing and new conventional generation in the north. To do so would threaten security of supply and sterilise the potential for new intermittent renewable generation.

6. FORL believes that the current price mechanism of a price £ per kW installed unfairly penalises generators with low load factors and does not reflect a true use of the system. FORL believes there should be a mechanism to support renewable generation in the UK it must be non discriminatory, and should therefore apply to all areas of the country where similar conditions apply. A population density figure is clearly not a long term signal and the reverse of the locational signal. One option would be to cap renewable generator's transmission and other use of system charges to those of the average UK system costs. This figure is clear, does not change quickly (important for investors and banks) and could be given for a specific time period such as 2020 to match the target date set by government, or 2025 when the RO ends. The system is cost effective for the consumer and ensures that renewable generation located in beneficial areas, still gain positive locational signals.

The whole area of use of system charges is seen by the renewable industry as a major driver when signing contracts, allocating risk and financing projects on PPA's of 10 – 15 years. It is essential that a fair transparent system is devised with clear caps.

The industry must know and understand the way in which Distribution and Transmission system charges would work, and where the boundaries and contract liabilities lie (especially in Scotland). To move forward to legislation without clearly defining these issues will greatly increase the market risk and slow the development of new generation especially in Scotland. It clearly could discriminate against otherwise viable projects. In addition it increases the cost of the RO to the customer without them seeing any development. This is inefficient and artificially slows the delivery of Westminster's targets.

Using ROC to subsidise northern generation.

FORL are aware that a number of market participants are proposing to redefine the value of a ROC from a number of potential sources. FORL disagree with this as a mechanism for delivery of Government targets. The increase in ROC values for Scottish generators is not an efficient way of compensating renewable generators for increased use of system charges in the north. The reasons are as follows:-

1. Projects are not financed against a short term ROC alone. They are financed against a long term PPA from a reputable supplier. The term is typically 10-15 years. In this market ROC's are discounted for both regulatory risk and certainty of price. These discounts total 30-50% of the original value of the ROC and smear back value. If consumers are to meet the extra transmission costs for northern generation by increased ROC values they will effectively pay up to twice the premium required.
2. Industry and Government predict up to 4,000 MW of new renewable capacity within Scotland by 2015. If the value of a ROC in Scotland is to be increased to address extra transmission charges, there will be a substantial potential reduction in the amount of generation required to meet the supplier's obligation. It will create artificial compliance, which

will not deliver the required 10 % of real capacity specified by the Government's 2010 target, and the carbon reduction associated with that target.

Licence Conditions.

1. It is clear that suppliers, small and large generators are all nervous about the ability of OFGEM and NGC to change pricing methodologies outside of the 5 yearly price control review process, with little or no consultation with the industry and no right for appeal. This also reflects badly with regard to regulatory risk as perceived by the banks insurers and investors FORL would like to see a industry body (such a revisions to the CUSC) through which all reviews would take place. In addition there should be a right of appeal to the DTI in the event that the industry, OFGEM and NGC could not agree.
2. The NGC can only revise pricing methodologies within the terms of their licence condition. If these terms are not wide enough FORL fears Ofgem and the Government will rely on other more costly mechanisms to deliver the same results. The current framework of the licence bases all reviews on Cost, Discrimination and Security of Supply. FORL do not question the validity of any of these, and accept that where discrimination and security of supply are not threatened; price should be the driver to all reviews. An addition should however be made to address Government Policy. If government set targets or put in place policies which are most cost effectively delivered to consumers through changes in transmission use of system charges, but conflict with the current Transmission price control, or revision of the methodologies as set out in the licence (where these are in turn agreed by the industry); then NGC and OFGEM should have the ability to set a price which would otherwise fall outside of the current licence terms.

FORL look forward to the Small generators consultation in the near future.

