ScottishPower

energy management

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04 November 2003

Dear David,

Transmission Charging and the GB Wholesale Electricity Market
August 2003

Thank you for the opportunity to respond to this consultation. This response, which covers both Part 1 and Part 2 of the consultation, is submitted on behalf of ScottishPower UK Division, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

ScottishPower UK Division continues to support the introduction of BETTA on the basis that it includes satisfactory proposals for (a) transmission charging and losses in a GB market; (b) treatment of the restructuring contracts set up in Scotland as part of the privatisation arrangements and (c) the division of responsibilities between the GBSO and the Transmission Owners (TOs).

While this consultation forms a key part of the BETTA proposals, we are disappointed that the strongly inter-related consultation on the treatment of small generators and the 132kV system has not yet been issued. This means that respondents must comment on this consultation, absent important information on a key piece of the overall picture. We believe that this hinders the process of developing the GB charging methodologies.

Nonetheless, we welcome the opportunity to state our views on the issues under consultation. This response is structured as follows: an executive summary contains the key messages, which are elaborated upon in the subsequent main body of the response.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

John A Campbell
Managing Director
ScottishPower Energy Management Limited

EXECUTIVE SUMMARY

ScottishPower UK Division welcomes the opportunity to comment on proposals for transmission charging in the GB wholesale electricity market.

We do not believe that NGC's current licence conditions provide an appropriate framework for the GBSO to develop transmission charging methodologies for the GB market, nor that transmission charging under BETTA should only be considered in terms of modifying the prevailing[1] England and Wales methodologies so that they may be extended to GB. Rather, we believe that the introduction of BETTA requires a fundamental review of NGC's licence conditions and charging methodologies, which must be undertaken in the context of the GB network under the split-transmission arrangements for BETTA. Such a review is essential to take account of not only the transition to BETTA but also the significant developments that have occurred since the first introduction of a long-run marginal cost (LRMC) methodology in England and Wales. These developments include imminent changes in European legislation, the development of UK government Energy Policy, and fundamental changes in GB market conditions.

We believe that extending the England and Wales methodologies to GB would be inconsistent with European regulations including Article 7(6) of the Renewables Directive.

Part 1 of the consultation document appears to be based on an incorrect assumption that transmission charges must reflect strong locational signals, and that the current England and Wales methodology is satisfactory for extension to GB. Part 2 of the consultation is then required to consider how the effect of extending the England and Wales methodology could be mitigated in light of the resulting high transmission charges in Scotland.

We believe that the consultation lacks the required clarity on three key points:

1. **There is no requirement in European legislation for GB transmission charges to provide locational signals.** The relevant European regulation merely permits Member States to provide locational signals within their territory.

2. **A postage stamp charging method can be regarded as both cost-reflective and non-discriminatory.** Provided that charges for network access recover only the legitimate costs involved in providing transmission service and investing to preserve the viability of the network, then a postage stamp charging method can be regarded as cost-reflective, transparent and non-discriminatory.

3. **The Renewables Directive imposes an unambiguous obligation on Member States to ensure that charging of transmission and distribution fees shall not discriminate against renewables.** If the effect of a proposed charging method is that on average renewable generators face substantially higher charges than non-renewable generators, then that charging method would be discriminatory. This would be the case whether or not the same charges are levied on renewable and non-renewable generators located in the same area.

Our estimates show that the **extension of the England and Wales charging methodology to GB would lead to the average charge for renewable generators being almost six times the average charge for non-renewable generators**, **and the average embedded benefit available to renewable generators being less than one fifth of that available to non-renewable generators**.

[1] NGC are currently consulting on Modification Proposals to their existing Connection Charging Methodology and Use of System Charging Methodology; the views expressed in this response apply irrespective of whether these modifications are approved.

We believe therefore that such a scheme would amount to discrimination contrary to the Renewables Directive. Since the discrimination arises as a practical effect of the extreme transmission charges levied on Scottish users, it should be dealt with at root cause, by a fundamental review of transmission charging in a GB context.

We believe that the GB charging methodology should meet the following criteria:

- It should reflect actual costs rather than notional costs that may never be incurred
- It should accommodate both conventional and intermittent generation without imposing excessive costs on either
- It should result in predictable and stable charges allowing users to be confident about the future level of charges over several years.

We also believe that NGC's current licence conditions are unsuitable for application to the GBSO for the following reasons:

1. Given that the future arrangements will be applied under the proposed model for split-transmission over the GB network under BETTA, we believe that they should:
    - require regulatory separation of the GBSO and TO functions within NGC,
    - take account of different security standards on individual networks,
    - address the treatment of 132kV networks within the charging models, and
    - include specific licence conditions in relation to discrimination by the GBSO in favour of its affiliated network.

2. Recognising the Government White Paper Objectives and the TISC recommendations, we believe the new GB arrangements should take account of the need to:
    - maintain security of supply,
    - promote renewable developments, and
    - recover the costs of national infrastructure from all GB customers.

3. With respect to the enduring governance arrangements and the change process, the arrangements should:
    - be industry led,
    - allow holistic consideration of issues,
    - require robust impact assessment and cost benefit analysis of proposals,
    - consider transition and timing issues as part of the change process, and
    - allow delayed and/or phased implementation.

The introduction of the initial GB arrangements should not be treated as simply a modification to the England and Wales methodologies. In particular:

- the possible impact on charges imposed on Scottish users must be recognised,
- Scottish users must be fully involved in the development process,
- Ofgem and DTI must jointly approve the new arrangements, and
- the GBSO licence conditions must require phasing to the initial GB charges where appropriate.

We believe therefore that NGC's current methodology for use of system charges is unsuitable for GB and that other models such as postage stamp or network tracing are more likely to provide a suitable basis for charging under BETTA.

1. Regulatory Approach and Basis of the Charging Methodologies

1.1 ScottishPower UK Division agrees that the current licence-driven approach generally used for the regulation of charges levied by network monopolies in the energy sector in GB, which is outlined paragraph 5.2 of the consultation paper, forms an appropriate model on which to base the setting of charges for using the transmission system in a GB wholesale market. However, as discussed below, we do not believe that NGC's current licence conditions provide an appropriate framework for the GBSO to develop charging methodologies for the GB market, nor that transmission charging under BETTA should only be considered in terms of extending the prevailing England & Wales methodologies to GB.

1.2 In particular, we do not believe that the use of current England and Wales charging methodologies would meet the requirements of the various European directives and regulations. While the long-run marginal cost (LRMC) based methodology introduced in 1994 clearly met Ofgem's requirements at the time, the framework of European requirements has developed substantially since then. We believe that the introduction of BETTA provides an opportunity to review transmission charging in the light of these developments and that the European requirements referred to by DTI in Part 2 of the consultation should in fact underpin Part 1 as well.

1.3 In considering the issues that arise with respect to transmission charging it is important to be clear about the requirements of the relevant European directives and regulations which will be in force at BETTA Go-Live. Paragraph 7.12 of the consultation refers to the following documents:

- The Renewables Directive (2001/77/EC), to be implemented not later than 27 October 2003
- The Regulation on conditions for access to the network for cross-border exchanges in electricity (No.1228/2003), which will apply from 1 July 2004
- IMED, the Internal Market in Electricity Directive (96/92/EC) which is in force now, and
- Directive 2003/54 (IMED2) which will replace IMED not later than 1 July 2004

1.4 ScottishPower UK Division believes that the consultation lacks the required clarity on the following key points.

1. **There is no requirement in European legislation for GB transmission charges to provide locational signals.** Paragraph 7.12 of the consultation risks being misleading when it states that "*Article 4.2 of the Regulation refers to transmission charges providing locational signals".* Article 4.2 of the Regulation (No.1228/2003) states that the Regulation "*shall not prevent Member States from providing locational signals within their territory."* Therefore, far from requiring locational signals in the charging methodology, the Regulation merely permits Member States to provide locational signals within their territory.

2. **A postage stamp charging method can be regarded as both cost-reflective and non-discriminatory.** Paragraph 7.9 of the consultation document refers to alternative "*models which do not ensure that transmission charges reflect costs"* and gives postage stamp charges as an example. The requirement for cost-reflective charging (for example in Article 11.7 of IMED2) is clearly intended to ensure that transmission operators, who are providing a monopoly service, levy charges that reflect only the legitimate costs involved in providing the required service and investing to preserve

the viability of the network. Provided the fees charged for providing network access recover only those legitimate costs, then the charging method should be regarded as cost-reflective.

3. **The Renewables Directive imposes an unambiguous obligation on Member States to ensure that charging of transmission and distribution fees shall not discriminate against renewables.** If the effect of a proposed charging method is that renewable generators face higher charges than non renewable generators, then that charging method, if implemented, would amount to a breach of the Directive. It is important to note that such a method would be discriminatory whether or not the same level of charges would be levied on renewable and non renewable generators who may be located in the same area.

1.5 ScottishPower UK Division believes therefore that Part 1 of the consultation makes an incorrect assumption that the transmission charging methodology should reflect strong locational signals and that the current England and Wales methodology is satisfactory for extension to GB under BETTA. Part 2 is then required to consider how the effect of such a charging method could be mitigated.

1.6 We believe that the correct approach is to view any charging methodology which has the effect of discriminating against electricity from renewable sources as prohibited on the basis that its implementation would amount to a breach of Article 7(6) of the Renewables Directive. Our estimates show that **the extension of the current England and Wales charging methodology to GB could lead to the average** transmission network use of system (TNUoS) **charge for renewable generators being almost six times the average charge for non-renewable generators**, and the average embedded benefit available to renewable generators being less than one fifth of that available to non-renewable generators. We do not believe therefore that such a scheme is in accordance with the Renewables Directive, nor that such discrimination can be corrected by the type of refund schemes discussed in Part 2 of the consultation document.

2. Critique of the current England and Wales charging methodology

Principles of the network use of system charging methodology

2.1 One of the principles on which NGC's current transmission network use of system (TNUoS) charging methodology is allegedly based is that of cost reflectivity. Ofgem has encouraged the interpretation of cost reflectivity as meaning that historic costs should be recovered using a model which estimates the marginal future investment cost of changes in transmission capacity, and that the tariffs should be recalculated every year to ensure that they always reflect the cost of the next increment of capacity. Article 4.1 of the Regulation (1228/2003) states that "*Charges ... shall ... reflect actual costs incurred ...*" and continues "*Those charges shall not be distance related.*" ScottishPower UK Division does not believe that any methodology which incorporates notional future incremental investment costs, which may never be incurred, should be regarded as truly cost-reflective and compliant with this requirement. Furthermore, the England and Wales methodology calculates charges based on the impact on network flows of an increment of power at different nodes on the network. The impact is measured in terms of the changes in power flow and the distance over which those changes are transported. The England and Wales methodology therefore contains an element of distance-related pricing, which means it is inconsistent with Article 4.1 of the Regulation.

2.2 ScottishPower UK Division believes that the essence of charging for use of a monopoly network is the recovery of the costs incurred by the network operator in the construction, maintenance and operation of the network. The operator's allowable revenue under the regulatory settlement is intended to allow the recovery of the reasonable costs incurred together with an approved rate of return on the capital employed. The essence of network charging should therefore be to ensure the equitable allocation of these costs among users. We do not see how a charging methodology which charges some users while making payments to other users can be described as being cost reflective, yet this is the outcome of NGC's current charging methodology.

The current NGC model

2.3 The current NGC model has a number of features with which we take issue. As noted above, it allocates historic costs on the basis of notional future investment costs. Thus the model is always calculating the marginal price which would apply if another increment of capacity were to be required. This is intended to act as a locational signal to potential new users. The existing user is therefore paying charges relating to the next increment of capacity, an increment which may never actually be required. To state, as in paragraph 6.18, that the "*locational element ... ensures users ... make a greater (or lesser) contribution to overall costs assessed against the additional costs they impose on (or save) the transmission system*" is misleading. The locational element of the charges is entirely notional and is not reflective of actual costs incurred. Furthermore, to quote the proportion of the total revenue which is recovered from the locational element of the charges misses the point. A better indication of the effect of the locational charging model would be to measure the spread of final tariffs against the uniform tariff which would recover NGC's allowable revenue. *Across England and Wales alone*, the range of generation charges is about 7 times the average tariff and their distortive effect on competition between generators is clear from this figure.

2.4 The use of a marginal cost model means that the incremental costs calculated for nodes at the periphery of the network are sensitive to the disposition of generation and demand between their location and the system centre. The effect of this is that generation charges in the north of the NGC system are affected by the excess generation in the Yorkshire/Humber area because the system centre is further south. While the England and Wales system measures approximately 450km both from Harker to Sellindge and from Indian Queens to Norwich, the extension to the north of Scotland adds a further 500km to the length of the system without any increase in its width. With the bulk of the demand being at or near one end of the system the effect is to exaggerate the charge differentials faced by generators across the network and magnify the effect on Scottish generators, such that the charges for generation in the north of Scotland could be several times higher than the charge around the Humber. The range of generation charges as a multiple of the average could increase to 10 times when the methodology is applied to GB. This is not conducive to fair competition. Given that the north of Scotland is a prime area for the development of renewable generation we believe that any LRMC pricing model is incompatible with the Government's wider energy policy objectives and, as noted above, contrary to the European Renewables Directive.

2.5 Compounding this volatility of charges is the insistence that they be re-calculated every year; thus each user's charge will depend on the commercial decisions of other, potentially competing, parties and the user can never know the level of charges beyond the end of the current charging year. ScottishPower UK Division believes that the GB charging methodology should accommodate multi-year contracting for TNUoS such that a user can

lock in for a time period commensurate with the expected duration of use, a level of charge which will then not be affected by the actions of others.

2.6 The current charging model was designed for the NGC network which is almost entirely supplied by conventional generation sources. As renewable development takes place it will become increasingly necessary to accommodate intermittent sources of generation, connected to both the transmission and distribution systems, and the low load factor conventional plant which will be required as reserve to maintain security. The current methodology, concentrating as it does on peak demand conditions and peak station output capability, does not appear to be a suitable model for these future system characteristics. It will be important to have a methodology which does not impose charges on the reserve plant which cannot be recovered in its low load factor role. Security of supply may be seriously compromised if this plant is forced to close because of high transmission charges, especially if, as might be expected, the intermittent generation is concentrated in a few areas of the network. Recovery of a proportion of transmission costs by the use of commodity-based charges instead of capacity-based charges would be a useful feature in this regard.

2.7 It is recognised that application of the NGC charging model on a GB basis would result in an initial reduction in the charges levied on demand in Scotland, and may even result in negative demand charges. However, increased charges on generators in Scotland are likely to lead to a lack of investment in generating plant and an increasing dependence on England and Wales generation to maintain security of supply. Any reduction of Scottish generating capacity would lead to an increase in charges on demand under the NGC model. Moreover, implementation of this model would also increase the cost of meeting renewables targets. This would inevitably result in higher prices for customers. As a consequence, we believe it is unlikely that customers in Scotland would see any sustained reduction in their bills.

Alternative Charging Models

2.8 We note from the consultation paper that Ofgem/DTI have rejected postage stamp charging as an alternative to the current methodology. As noted above, we do not agree with the arguments put forward to support this position.

2.9 A further alternative model which appears to us to be cost reflective is the network tracing methodology[2], also known in Europe as the method of average participations. This has been suggested as a mechanism for calculating the share of network costs which should be attributable to interconnector users in Europe. A similar methodology could be developed to determine the share of network costs within each zone of the network which were attributable to each user. This appears to us to offer a cost reflective methodology for the allocation of the network operators' costs to network users, were that to be considered an overriding requirement. The method is relatively simple to operate, is clearly cost reflective and leads to geographical variations in prices which are generally consistent with, but much smaller than, those produced by marginal methods. All prices are positive. This methodology can be seen as a compromise between the extremes of marginal pricing and the simple average postage stamp pricing. Use of network tracing within a GB-wide TNUoS charging methodology would reduce, but not eliminate, the differentials between TNUoS charges faced by generators and demands in different areas of the country.

[2] *Real and Reactive Power Tracking: Proof of Concept and Feasibility Study,* EPRI, 1999. Report TR-112416

2.10 In summary, ScottishPower UK Division believes that:

- long-run marginal investment cost charging models are not cost reflective,
- the current NGC model is unsuitable for GB network charging,
- other models should be considered, e.g., postage stamp or network tracing,
- the charging model should accommodate both conventional and intermittent generation without imposing excessive costs on either,
- users should be able to fix tariffs for several years.

3. Licence conditions relating to charging

Issues with NGC's current licence conditions

3.1 ScottishPower UK Division believes that NGC's current licence conditions in relation to charging in England & Wales are unsatisfactory, and should be reviewed drawing on experience under NGC's ongoing Charging Review and its interactions with other governance frameworks.

3.2 In particular, the requirement to keep the charging methodologies under review at all times leads to continuous piecemeal changes to the methodologies, and also allows several changes to be proposed simultaneously which may cumulatively result in significant changes to the overall charge structure with only a few months notice. This in turn leads to considerable inefficiency and uncertainty over the level of future charges, which inevitably leads to higher costs for customers. Further, NGC's interpretation of the restricted vires of their current licence conditions is that they do not allow the review process to consider interactions with related industry developments such as BETTA and the distribution charging review, or wider issues such as Government Energy Policy (see below). This results in further inefficiency and uncertainty.

3.3 ScottishPower UK Division also believes that the charging methodologies should be subject to an industry-led governance process similar to that of the BSC. Experience has shown that the current arrangement in which NGC and Ofgem are essentially the only participants is unresponsive to the concerns of system users. As we have stated in other BETTA consultation responses, we are also concerned that the fragmentation of the industry arrangements between different codes with separate governance prevents holistic consideration of issues and leads to sub-optimal trading arrangements. We also believe there should be more rigorous impact assessment, including cost-benefit analysis, of all proposed modifications, both individually and in their possible combinations, and that the consultation report should be issued for further consultation before submission to Ofgem, thereby allowing respondents to comment on the representation of their views in the report.

3.4 NGC have recently stated, in the context of their current review of transmission charging methodologies in England and Wales that their current licence conditions preclude the phasing in of any changes to their charging methodologies. Such changes can lead to significant change to the level of charges faced by users or groups of users and we believe that the licence conditions should require transitional issues to be addressed during the assessment of a charging modification and allow phasing in of changes.

3.5 In summary, we believe that NGC's current licence conditions are not suitable for the GBSO and that the future arrangements should:

- be industry led,
- allow holistic consideration of issues,
- require robust impact assessment and cost benefit analysis of proposals,
- consider transition and timing issues as part of the change process, and

- allow delayed and/or phased implementation.

New considerations for BETTA

3.6 The issues noted above with regard to NGC's role in the change processes for the charging methodologies will be particularly important to address under the proposed GBSO/TO/TO model for split-transmission under BETTA. Ofgem/DTI have recognised that placing on the GBSO the responsibility for transmission charging across the combined GB transmission networks is not without risk. In particular, there is a risk that the GBSO will, by omission or commission, discriminate between its own wires business and the businesses of the non-affiliated TOs, and their respective connected users.

3.7 ScottishPower UK Division believes that regulatory separation within NGC is the absolute minimum standard which should be required for operation under BETTA. Without such separation we have little confidence that anti-discrimination measures can be enforced effectively, given that the TO function of NGC's wires business does not exist as an entity in any licence or industry code. Furthermore, we believe that the non-affiliated TOs should be involved in the charging methodologies. This would not only help to reduce the risk of discrimination but would also provide a link between the investment activities of the TOs and the revenue raising activity of the GBSO.

3.8 The incorporation into one GB network of three existing systems with different planning and security standards also needs to be recognised. The need to take account of differences in standards across GB in the development of the transmission charging methodologies to apply under BETTA was explicitly recognised in Ofgem/DTI's conclusions document on "Planning and operating standards under BETTA" in June 2003. We are disappointed that there is no reference to this issue in this consultation. Network charges must be commensurate with the standard of service which is offered and this principle must be incorporated into the licence conditions.

3.9 It hardly merits mention that the treatment of 132kV connected small generators under BETTA needs to be resolved before transmission charging issues can be resolved. It should also be noted that the presence of interconnected 132kV networks in Scotland has wider implications for the charging methodologies and will affect the level of charges paid by supergrid connected generation across the combined networks.

3.10 In summary, we believe that the GBSO/TO/TO model means that the future arrangements should:

- require, as a minimum, regulatory separation of the GBSO and TO functions within NGC,
- involve the non-affiliated TOs in the development and maintenance of the charging methodologies,
- take account of different security standards on individual networks, and
- address the treatment of 132kV networks within the charging models.

New considerations relating to the wider environment

3.11 The recent Government energy review has fundamentally changed the energy environment of the UK. DTI have recently consulted on new draft social and environmental guidance to the Authority which would require Ofgem to facilitate the achievement of wider energy policy objectives. It will be imperative therefore, as noted by the Trade and Industry Select Committee, that the GBSO's licence conditions reflect these requirements in respect of the development of charging methodologies. These will need to temper the pursuit of

economic efficiency with the maintenance of long-term security of supply and the promotion of renewable generation. While economic efficiency will still be important, it should not be presumed, either in reality or in the charging methodologies, that new generation developments will require new transmission infrastructure. Better utilisation of the existing infrastructure should also be an objective and the access and charging arrangements should reflect this. We do not believe that the current charging methodology, discussed above, is sufficiently flexible to deal adequately with this issue. Where new infrastructure investment is needed as a consequence of the wider energy policy objectives the costs should be recovered from customers across the whole of GB.

3.12 In summary, we believe that the current energy environment requires that the new arrangements should:

- be consistent with European requirements,
- have regard to wider energy policy objectives,
- maintain security of supply,
- promote renewable developments,
- encourage the use of existing infrastructure,
- recover the costs of national infrastructure from all GB customers

4. Process and timetable for the development of the GB charging methodology

4.1 ScottishPower UK Division is disappointed with Ofgem/DTI's proposal that the development of the GB charging methodology should be delegated to the GBSO. We recognise that the proposed development starts by testing whether the model for charging in England and Wales is also appropriate for application to GB. However, we believe, that the basis upon which the charging methodologies are developed needs to be changed. We also believe that the development processes for and transition to the initial GB transmission charging methodologies should be given special consideration, rather than being treated as a modification to the England and Wales methodologies within their existing change processes.

4.2 It is inappropriate therefore to assume that the GBSO will be developing the methodologies under the same licence conditions as the England and Wales SO, or that the England and Wales methodology is a suitable starting point. In this respect we believe that the current England and Wales charging review is irrelevant to GB and is an unnecessary diversion of industry resources which would be better deployed on GB developments.

4.3 We are also concerned that any requirement for NGC to complete the England and Wales charging review before commencing the GB development, perhaps due to resource constraints, will simultaneously curtail the time available for GB development and increase the pressure to accept an extension of England and Wales methodologies to GB. This would, we believe, be iniquitous and would fundamentally discriminate against the Scottish industry and its customers. We would urge Ofgem/DTI, once again, to suspend the England and Wales review and commence work forthwith on the development of the GB licence framework and methodologies; only in this way will it be possible for network users to be given adequate notice of the future GB tariffs.

4.4 Within this development work, it is essential that the interests of Scottish users are accommodated, with special charging workshops being held in Scotland for the discussion of Scottish issues by Scottish users. It is also important that the issues surrounding small generators and the 132kV system are addressed as soon as possible so that the consequences can be considered when developing the charging methodologies.

4.5 ScottishPower UK Division also notes that the proposed development process culminates in the approval of the initial GB charging methodologies by the Authority. Given that the BETTA programme is a joint development by Ofgem and DTI we believe that both bodies should be involved throughout the process, and jointly approve the initial GB charging methodologies, in order that all aspects of the future development of the GB electricity trading and transmission arrangements are taken into account when considering the proposed GB transmission charging methodologies.

Transitional issues

4.6 ScottishPower UK Division is concerned that Ofgem/DTI's proposed approach to the development of the transmission charging methodology may lead to a failure to recognise the possible magnitude of the change to the commercial environment in which companies currently operate. We have argued above for the introduction of a new GB methodology for BETTA. This is likely to lead to significant changes to the level of charges faced by some network users. **Should the England and Wales charging methodologies be extended to GB, the tariffs faced by Scottish generators would be the highest on the network and could be four times higher than at present** while generators in all zones of England and Wales would face a beneficial change in tariff.

4.7 ScottishPower UK Division believes that the magnitude of the changes to transmission charges under BETTA is such as to require a phased introduction and notes that Ofgem/DTI do not intend to take any 'BETTA Powers'. If BETTA powers are not to be taken, we believe that the licence conditions of the GBSO must not only facilitate phasing, they must require it.

5. Comments on Part 2 of the consultation document

5.1 ScottishPower UK Division welcomes DTI's recognition that the choice of transmission charging methodology under BETTA could have significant consequences for the achievement of the Government's policy objectives for the growth in renewables. We are, however, disappointed that DTI has assumed that the extension of the current England and Wales charging methodologies to GB is the most likely outcome and has therefore sought to identify suitable support measures for a small subset of affected network users.

5.2 As we have set out above in response to Part 1 of the consultation paper, we believe that a new methodology suitable for GB in 2005 needs to be developed within the context of the Government's wider energy policy objectives, including both security of supply and the growth of renewables. The current England and Wales methodology, ignoring as it does important issues such as the availability and location of renewable resources and the contribution of different types of generation to long-term security of supply, is unsuitable in this context.

5.3 Given our belief that any charging methodology which would necessitate the type of support measures identified by DTI would not comply with the European Renewables Directive, we have not commented on those proposals, nor on the appropriate definition of renewable generation.

6. Other issues raised in the consultation paper

6.1 ScottishPower UK Division welcomes confirmation of socialisation of the ScottishPower-NGC interconnector circuits and expects that the details of this will be discussed in the forthcoming consultation on transmission price control issues. We would point out,

however, that this is a separate issue from the effect of transmission charges on Scottish generators in general and renewable generators in particular.

6.2 Ofgem has noted in paragraph 4.48 that all Scottish users benefit from the interconnector and it is therefore appropriate that they should pay for pre-vesting capacity in their TUoS charges. The comment in paragraph 6.17 that a proportion of costs are recovered from Parties connected in SP Transmission's area "regardless of whether they use the interconnector or not" is therefore inaccurate and unnecessary. It would have been more helpful to point out that customers in England and Wales have also benefited from the use of the interconnector for the last 13 years without making any contribution to its costs.

6.3 ScottishPower UK Division supports the concept of 'one pot' charging for the GB transmission network under BETTA provided that the different levels of service implicit in the different planning and operating standards of the three networks is reflected in the final charges to system users. We welcome confirmation from Ofgem/DTI that the costs of extensions to the GB network will be recovered from all GB users.