

≡ Scottish and Southern Energy plc

Transmission Charging and the GB Wholesale Electricity Market

Part 1 - Changes to transmission licences to implement GB charging under BETTA

Summary

We are extremely disappointed that, with legislation potentially only a few months away, there is still not the slightest indication of likely transmission charges to Scottish customers under BETTA. This timetable is unacceptable and inconsistent with our understanding that certainty on prices would be provided before the Bill was presented to Parliament.

It is also unfortunate that the proposed consultation on small generators and the 132kV system has still not been published since the initial proposals in this consultation will not now be able to be taken into account in the indicative charges. This is despite Ofgem's advice to the Trade and Industry Select Committee (TISC) that the consultation would be produced in April, with conclusions around June 2003, and the TISC conclusion that "Ofgem should consult on the issues affecting smaller generators as soon as possible".

Despite the continuing uncertainty over small generators, it remains absolutely imperative that NGC publishes its initial thoughts on GB charging in November, and that this includes indicative use of system charges. We recognise that this will have to include some assumptions about parties liable for TNUOS but given the relative sizes of installed MW of small and large generators, this should only have a marginal effect on the £/kW figure.

We agree that, under BETTA, it will be appropriate for the GBSO to have the licence obligation to develop charging methodologies, and that this obligation should be based upon the existing relevant conditions in the licence. However there are concerns about the stability of charges and the interface with users and TOs. It is extremely unhelpful that NGC have chosen to fundamentally review its charging methodology in England and Wales since, without this, the indicative charges under BETTA could have been produced some time ago, and probably in advance of the TISC pre legislative scrutiny of the draft E(TT) Bill. The review process and the existing freedom for NGC to revise its methodology results in increased regulatory risk for all market participants, since it can produce huge swings in tariffs.

GB Charging Framework under BETTA

Ofgem have proposed in this consultation, consistent with earlier consultations, that the GBSO should have the licence obligation to develop charging methodologies and that NGC as GBSO designate should publish indicative charges under a GB pricing methodology. We agree with this conclusion and firmly believe that these charges should be published as soon as possible, and certainly before the draft BETTA Bill is presented to Parliament. To assist NGC with this process, we believe that Ofgem should respond to NGC's proposals for revised

charging arrangements as soon as possible after submission by NGC, rather than allowing the full 28 days permitted by NGC's licence.

We also agree that the licence obligations should be based upon the current Standard Conditions C7, and C7A-E of the electricity transmission licence.

However, there are a number of issues with the methodology itself and the interactions both with transmission owners and with users that will need to be addressed.

The obligation to keep the methodology under review has led, with the introduction of ICRP in the early 1990's, to huge swings in charges for customers. Ofgem state that the "England and Wales framework represents a well documented and well understood baseline for consultation". While this may be true for the current ICRP and connection boundary methodology, NGC have now undertaken a fundamental review of the connection boundary and the TNUOS methodology, which will mean, at the very least, that the methodology to be consulted on will be neither well documented nor well understood.

Also, this proposed methodology has the potential for even greater swings dependent upon a combination of parameters in the model. This does not sit well with the obligation for transparency, and is unhelpful in making long term decisions about building new generation plant in particular. The continued delay in publishing indicative tariffs under GB arrangements is also regrettable, since there is evidence that renewable generators wishing to locate in Scotland are delaying their decision because of the uncertainty over pricing.

We would therefore urge Ofgem in the strongest possible terms to ensure that NGC publishes indicative transmission charges under BETTA as soon as possible and certainly no later than November.

The connection charging methodology provides for a range of payment options designed to allow, for example, the transmission licensee to commit to a tight connection timetable in return for a more appropriate sharing of risk. Since it will be the TO under BETTA who will have the responsibility for constructing the connection and infrastructure assets, we believe that these options can only continue to be available if the GBSO is simply the agent for recovering the TO's costs under the terms of the bilateral connection agreement, and the TO is the party to the Construction Agreement.

Implementation Process

We firmly agree that NGC should publish their initial thoughts on the implementation of GB charges, and it is absolutely vital that this should include indicative use of system charges pursuant to the methodology current at the time of the consultation. As noted above, the uncertainty over likely TNUOS charges is already having an adverse effect on investment decisions by renewable generators, and we accept that there will need to be a set of assumptions about the parties liable for TNUOS. This consultation should therefore be as soon as possible.

We agree that it will now be necessary for a further round of analysis and consultation in March 2004 taking into account the conclusions on small generators and the 132kV system.

Given that the proposed March 2004 consultation is intended to give adequate notice for users, it is not clear that a further consultation is required, merely a conclusions document and any necessary proposals for modifications to the methodology for approval by Ofgem.

Geographic Cost Recovery

We agree that under BETTA, it will no longer be necessary to match income from specific geographic areas to the transmission costs in those areas.

Liability for Transmission Use of System Charges

We believe that it is inappropriate to invite opinions on who pays transmission use of system charges at this stage. The indicative charges to be produced in November should make assumptions based on the current NGC methodology. The parties liable for TNUOS will need to be reviewed once the conclusions regarding 132kV and small generators are known.

In this context, the TISC report on the pre legislative scrutiny of the draft E(TT) Bill concluded that “A fair and equitable market requires that all participants are treated on the same basis. It is contrary to the principles of open competition that generators connected to the electricity network at 132kV in one part of the country and supplying only their local network should have to incur costs which are not borne by competitors of similar size doing the same thing in another part of the country. Whether by regulation or amendment of the industry codes to exempt small generators from the burden of transmission charges, or by other means, an equality of treatment must be established among generators connected at 132kV.”

For the purposes of informing the NGC charging consultation, we believe that the liability for transmission use of system charges should be based upon the connection arrangements having regard to the working assumption that 132kV remains as transmission and the current NGC liability rules for embedded generators. This implies that many of the hydro and wind generators in Scotland that currently pay TNUOS under SHETL’s methodology would not be liable under this scenario. A further tranche of generators may not be liable depending on the outcome of the small generators consultation, but this can only be decided once a conclusion has been reached on this point.

We would also like to correct a factual error in 6.29 where Ofgem state that the specific exemption from TNUOS for generators who sell energy under the SRO has no effect in practice. In fact this exemption does have a material effect since more than half the SRO generators would be liable for TNUOS under the SHETL charging methodology.

None of these SROs would be liable for TNUOS using the “licence exempt embedded generator” definition under NGC’s charging methodology.

≡ Scottish and Southern Energy plc

Transmission Charging and the GB Wholesale Electricity Market

Part 2 - Charging in the context of Government Policy Objectives for Growth in Renewables.

Summary

This part of the consultation recognises the importance of renewable generation in delivering the Government's energy policy objectives set out in its White Paper. There are also legal obligations under European legislation, in particular under the renewables directive. We therefore believe that a targeted response to peripheral areas would meet the government's legal obligation, and propose that a price cap of £12/kW be applied to these peripheral areas, rather than the proposed mechanism of rebates. That is, we believe that Ofgem should state now that whatever the specific methodology adopted by the GBSO, transmission charges will be no higher than £12/kW in any particular zone. This would provide the price certainty for potential Scottish renewables in advance of BETTA to secure project finance and proceed with their projects now in support of the governments objectives rather than waiting a further 12-18 months before firm April 2005 tariffs are published.

Options for Consideration

The DTI have proposed two broad options for charging arrangements to deal with achieving their policy objectives for renewables:

- a) arrangements for all renewable generators; or
- b) arrangements for renewable generators located in peripheral areas.

We agree with the DTI that a mechanism to benefit all renewable generators might be disproportionate. The incentives through the renewable obligation should in general exceed the costs in even a charging regime that provides an element of locational signals.

However, the second option is more firmly rooted as an obligation under European Law. Where a charging regime results in extreme locational prices for peripheral regions, we believe that this could discriminate against renewable generation in these areas. We therefore firmly believe that measures need to be introduced to limit the transmission charges for renewable generators in peripheral areas.

Conclusions

The proposed definition of islands and low population density (below 20 per sq. km) appears to be entirely consistent with the EU directive, and we support this approach.

DTI invite views on the size of the rebate to be given. While rebates are one approach, we believe that this is unnecessarily complicated, and may lead to issues of discrimination in charging between a renewable generator in a zone, and an adjacent non-renewable generator. Furthermore, it will not provide any price certainty for renewables, simply ensuring that the charge is less than it might otherwise have been.

Instead, we believe that a price cap would give certainty to renewable generators as to their likely exposure to TNUOS. This would greatly simplify the tariff setting mechanism and remove a major uncertainty for new generators in securing project finance. At present, the charges in SSE's area for new generation using the transmission system are relatively high at around £12/kW. This level of charge does not appear to be a major hurdle for renewables to locate in the North of Scotland, and is some 25% higher than the highest NGC charge at present. There would appear to be adequate flexibility in GB charging to be able to provide some assurance as to the maximum liability for TNUOS and we therefore firmly believe that there should be a licence condition on the GBSO to ensure that, in setting TNUOS charges, they do not exceed £12/kW with appropriate indexation.

The proposed "cap" methodology also overcomes the problem of potential discrimination between a renewable generator in a particular area and others in the same area. In the cap method, all generators liable for TNUOS would pay the relevant rate.