

Smaller generator issues under BETTA: an Ofgem/DTI Consultation
Response from the Association of Electricity Producers

15 January 2004

Introduction: The Association welcomes the opportunity to respond to this consultation. Our comments reflect the summary nature of some of the discussion and proposals in the consultation document. We have additionally commented on some issues that we believe are relevant but not addressed in the consultation. For the avoidance of doubt these comments relate to the version of the consultation document available from the Ofgem web site.

1. Background to the Association: The Association has a membership of some 100 companies, most of which produce electricity for the wholesale electricity market in the United Kingdom. Between them, the members embrace virtually all of the fuels and technologies used for commercial electricity production, from coal, oil, gas and nuclear power to wind, wave and hydro and production from a wide range of waste products. Members' power plants range from small schemes using renewable energy or combined heat and power to large, conventional power stations.

2. Main Points

a. Licence Exemption

The Association supports a Great Britain-wide harmonization of licence exemption provisions. However, within England and Wales we have become concerned over the way in which licence exemption conditions have been proposed and in some cases introduced for renewable generation in the range 50-100 MW. We remain to be convinced that the restrictions that NGT seeks to place on smaller embedded generators in England and Wales are necessary and have particular concerns that the route of licence exemption is chosen to implement them. If this approach is replicated GB-wide, licence exempt generators with multiple conditions in their exemption will effectively have those conditions locked in. This means they do not even have recourse to change via the industry code governance procedures available to a 'normal' licence holder. It also makes it awkward to change the codes themselves if that would leave different technical conditions applying to generators not affected by the code and those that are but have a condition imposed under a licence exemption condition. This situation is unsatisfactory from our members' position and we anticipate would be equally unsatisfactory to the System Operator (SO). We seek assurance that when applied GB-Wide, licence exemption will be just that, not a 'Class 2 Licence'.

b. Basis for the current definitions of transmission and distribution:

We note that DTI/Ofgem have decided to denominate 132 kV as transmission in Scotland and distribution in England & Wales. In particular the consultation states that 'the classification of 132kV lines as forming part of the transmission system in Scotland should not be revisited in order to remove perceived commercial differences in treatment between transmission and distribution connected generators'. The Association believes that the rest of the consultation document clearly demonstrates that the differences are real, not just perceived. Therefore the definition of transmission and distribution must not be allowed to compromise the trading opportunities of generators in GB. We return to this issue below.

It is argued that that the classification of 132kV as transmission in Scotland gives those so connected the benefit of access via an independent SO. We understand that much of the proposed renewable generation in Scotland will continue to be connected to the distribution network. Therefore supervising monopoly network providers who also have generation interests will continue to be a primary role for Ofgem

c. Development of GB Charging Arrangements:

The consultation seeks, in the longer term, to ensure greater consistency of transmission charges and benefits between transmission and distribution connected generators. The Association looks forward to participating in such development and applauds the general aspiration – something which the Association has advocated for many years.

In the interim, the consultation considers the differences between transmission and distribution connected generation notionally at the same location and voltage and determines that the net TNUoS benefit of generation being distribution or grid connected is the sum of the residual TNUoS payments by generator and contracted supplier. We are not clear that the proposed reduction of the generator residual TNUoS cost fully captures the differences in costs and seek greater clarity on this issue. It appears that the basis of analysis assumes i) an equivalence of connection charges regardless of whether they are transmission or distribution, ii) the sum of the nodal residual charges remains when zonal averaging of charges is applied, and iii) takes no account of the forced criterion that demand-side charging is not allowed to be negative.

Additionally, as NGT retains its licence right to fully recover costs, any reduction in TNUoS for one part of the market will need to be recovered from somewhere else in the market. Is this intended to be recovered from the supply-side TNUoS residual so that this discount is spread directly across the customer base?

- Value of Discount: Generators are currently subject to uncertainty regarding the value of TNUoS charges year on year. If a discount is used for transmission connected licence exemptible generation, they will be subjected to the double uncertainty of the value of TNUoS and the value of the discount.
It should also be remembered that project developers will have difficulty convincing lenders that a discount to an expenditure stream, rather than a fixed known amount has sufficient long-term robustness to be considered as part of any financing plan.
- Application of the Discount: Insofar as this discount is intended to act to mitigate inequality between generators in England and Wales and those in Scotland, a simple pragmatic approach would be to apply the discount to those generators who would be licence exemptible in England and Wales and hence would become licence exemptible in Scotland as the licence exemption conditions are being harmonised)
- Duration of the Discount: If a discount approach is adopted, its purpose is to mitigate the disadvantage felt by licence exemptible plant which would otherwise be distributed. Therefore the appropriate time to remove the mitigation is when the longer term arrangements provide a similar environment for all. It is within Ofgem's gift to determine how long it wishes to spend in developing the longer-term solutions and when it wishes to implement them.

GB TNUoS First Thoughts: NGT has now provided first thoughts on a GB TNUoS charging arrangement based on the 2003-04 charging rules. The Association will respond to this document separately, but for now, we merely remark that it will be difficult to square the government's renewable energy policy and proposed growth of renewable energy in the north west of GB with the estimated TNUoS differential of ~£35/kW across GB and ~£20/kW in the north of Scotland.

d. CUSC Obligations

For licence exemptible generation connected at 132 kV, its exposure to the CUSC arrangements is involuntary. Whilst the consultation recognises that this may lead to disproportionate obligations, it appears to offer only some kind of agency arrangement as a means of dealing with the responsibilities on the generator. Whilst it is possible to develop changes to the CUSC that may facilitate agency, it does not reduce the intrinsic complexity of the CUSC. Additionally, there are credit obligations under the CUSC and charging arrangements that will still need to be passed through the agent to the generator. All of this suggests that more innovative suggestions are required than those contained in the consultation, so that the smaller transmission connected generator in Scotland is not disadvantaged relative to generators further south.

e. Grid Code Obligations

- Size bands The Association recognises that differences in size bands and hence grid code obligations and rights have arisen as a result of historical and technical issues. In considering how these regional differences are minimised in the future, we believe that the desire for harmonisation should not simply be an end in itself and that changes need to be driven by technical and commercial good sense, with appropriate recognition of the costs of change. Consideration should always be given to the option of making change only apply prospectively.
There is another issue associated with requirements for generators in the Grid Code (both the current codes for Scotland and for England and Wales and the proposed BETTA Code) that have no route to enforcement and should therefore be removed. These are Grid Code requirements on generators that have neither a licence nor a contractual requirement to comply with the Grid Code - typically non licensed, distribution connected generators. Having so called 'requirements' on such generators in the Grid Code is misleading to all concerned, inappropriate and totally ineffective. They should therefore be removed.
- Mandatory Ancillary Services The Association has consistently supported a market-based approach to the provision of ancillary services. We hope that this approach can be progressed in the run up to BETTA implementation. We presume that the introduction of BETTA will not be used as an excuse to try to force Scottish or any other generators into provision of services which they were hitherto not required to provide. The comments on having 'requirements' on generators that are not bound in any way to the Grid Code (as above) apply. Whilst we support the proposed formalisation of the process of derogating Scottish generators from providing ancillary

services we maintain our view that they should be provided through market-based arrangements.

- Sending & Receiving Data: The SO needs to collect Information for operational purposes. However, the Association suggests that the data should be collected only from those generators who can be demonstrated to make a material effect on the system operation, not just collected on a blanket basis. Additionally, information should be collected in a format, with a timing and frequency and using a means that is appropriate, not just to the SO's convenience. Otherwise these obligations represent yet another imposition on smaller generators who are transmission connected.

f. Trading Issues

This section of the consultation seems premised on the expectation that because a smaller generator finds itself transmission connected it must be forced to carry the burden of BSC membership and charges. We believe it is necessary for trading options to be developed that will allow smaller generators to be treated in a non-discriminatory manner throughout GB.

- Trading Charges under the BSC In England and Wales a smaller distributed generator would not face any trading charges under the BSC unless they had opted to sign the BSC. Routinely they would trade with a supplier who would deal with metering and other costs via their trading charges. We are surprised that this is not the starting point for consideration of smaller generators' exposure to BSC trading charges and would suggest that options are developed that allow this type of approach.
- Trading options Again in England and Wales, BSC membership for a smaller generator would be optional. Consolidation is one of the options available to a smaller generator, but by no means the only one. Indeed the consultation notes that consolidation has not proved as popular as was hoped in England and Wales. We believe effort is required urgently to expand the range of trading options available to smaller generators. It is noteworthy that the range of options available to smaller generators in England and Wales has expanded significantly since NETA 'Go Live'. These proposals threaten to return the Scottish smaller generators to a position worse than that of their counterparts in England and Wales at 'Go Live'. We have raised previously the 'Solway Firth question' as a criterion for judging the efficacy of proposed trading solutions. If a rational generator will obviously wish to connect to the south, or to the north, then the trading and other issues still have residual discrimination. We commend this to you as a test of the improved trading options that are required.

Losses In England and Wales, an embedded, licence exempt generator can trade a losses benefit with a local supplier. No mention is made of how this issue can be addressed in Scotland.

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