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15<sup>th</sup> January 2004

Dear David,

**Small Generator Issues under BETTA An Ofgem/DTI Consultation Document**

Thank you for the opportunity to comment on the above consultation paper which raises a number of important issues.

**Key Points**

- **British Energy notes the intention of DTI/Ofgem to continue to class 132kV lines in Scotland as transmission. We consider that the anomalies addressed in this consultation could have been avoided if the treatment of 132kV had been aligned with the England and Wales arrangements. We therefore continue to believe that 132kV in Scotland should be classed as distribution.**
- **If the Government believes that the present level of support for renewables/small generators is insufficient then it is open to them to propose change to these arrangements. The August 03 GB Transmission Charging consultation recognised the large subsidies which are already paid for by taxpayers and consumers. We maintain that the treatment of small generators/renewables should not be used as a vehicle to provide further subsidies distorting charging arrangements and thereby damaging or distorting competition.**
- **The absence of DTI/Ofgem's conclusions on the August consultation paper on GB charging and the treatment of small generators hinders the assessment of the proposals set out in this paper. We therefore reserve the right to comment further once this information is available.**
- **We support the harmonisation of licence exemption provisions across GB as proposed in the consultation**
- **If 132kV is classed as transmission, the proposals to exempt small generators connected at 132kV in Scotland from the transmission residual charge under a GB charging regime may be appropriate as an interim measure providing the shortfall in revenues created by such a measure is recovered from the demand side.**

- **We would not support exempting small generators from BSUoS or charges for transmission losses.**
- **We note that DTI/Ofgem have required National Grid to reflect the possible interim measure in its initial GB tariff which has recently been published. It is important that Ofgem makes clear that this should not be seen as prejudging the outcome of the consultation process.**
- **A timetable for the development of the enduring arrangements should be included in the final proposals.**

The issues raised in the consultation primarily arise because 132kV will continue to be treated as transmission under GB arrangements. If 132kV were treated as distribution then the issue of treatment of small transmission connected generation would not arise. While noting the DTI/Ofgem view set out in the consultation we suggest that a more pragmatic solution which raises fewer issues would be to class 132kV as distribution in Scotland under GB arrangements, with exceptions for specific lines if necessary

The absence of the conclusions to the DTI consultation on treatment of small generation published last August prevents a complete assessment of all the issues. There may well be interactions, which have not been considered, and for this reason we need to reserve our right to comment further once this information is in the public domain. . In addition, in the interests of transparency, there should be no distortion of the GB charging arrangements with the potential to damage and/or distort competition as a consequence of any 'carve outs'. We urge DTI to publish these conclusions as soon as possible.

We support the DTI/Ofgem decision to reject the proposals to treat small generators connected at 132kV in Scotland as if they were distribution connected or simply to exempt small generators connected at 132kV from transmission charges for the reasons set out in the consultation paper. We reserve our position in relation to the proposal that small 132kV connected generators should be exempt from the transmission residual charge. Any short fall in transmission revenues arising from such a measure should be recovered from an adjustment to the demand side transmission charges.

While the paper talks about the need to establish an enduring solution a timetable should be provided which provides a greater level of commitment.

### **Comments on the issues where views were specifically invited**

#### **Paragraph 8.40**

- As an interim measure it may be appropriate to treat small transmission connected generators differently providing the treatment is proportionate and does not result in additional costs being passed onto other generators. The proposals in the consultation may satisfy this aim providing the shortfall is recovered from demand directly, in the interests of efficiency as customers will ultimately pay. It will however be important to specify a programme of work to achieve an enduring solution at the earliest opportunity.

- We note the suggested 100MW capacity limit of eligibility. Clearly though there are other potential capacity limit solutions, driven by, for example licence exemption criteria, and until further information is made available, it would be inappropriate to fix a level at this stage.

#### **Paragraph 8.49**

- The GB CUSC should encompass all transmission connected generation as is presently the case in England and Wales. It would seem appropriate for some explicit measures to be taken under the CUSC to facilitate transfer of responsibility of obligations to another party, akin to current E&W BSC provisions.

#### **Paragraph 8.66**

- We agree with DTI/Ofgem that the transition to a GB Grid Code under BETTA must not in any way reduce system integrity or the ability to meet operational standards. It is prudent to retain the obligations currently in place and the definitions proposed for small, medium and large generators and for the GB Grid Code to reflect regional variation. In the longer term harmonisation is an appropriate aim and we support the proposal to add a new objective for the GB SO to seek to minimise regional differences in the Grid Code.
- The current levels of provision of ancillary services should be maintained under BETTA to ensure system integrity. While existing bilateral agreements with SP Transmission and SHETL derogating certain plant will need to be dealt with on a case by case basis all future derogations should be handled as per the England and Wales arrangements.
- We agree that it is appropriate for the GB system operator to collect information for operational purposes from all parties connected to the transmission system. The collection of this data via the current England and Wales EDT provision should not unduly burden small transmission connected generation. The ability under the BSC and Grid Code to appoint an agent to handle the EDL based communication on its behalf would provide a cost-effective means of accessing the balancing mechanism.

#### **Paragraph 8.74**

- The current structure of BSC trading charges would not disproportionately impose trading charges on small generators. Small generators should be liable for Elexon charges on the same basis as other transmission connected or larger distribution connected generation.

#### **Paragraph 8.81**

- We do not advocate the use of a 'carve out' for small transmission connected generators from the provisions of the GB BSC. In any event such arrangements based on the size of plants would need to be flexible. For example, rather than a fixed limit of, say 50MW, any 'carve out' arrangement should apply on a sliding scale from say 25MW (full impact) to 75MW (no impact). This would also alleviate any deliberate de-rating of plant.

### **Paragraph 8.88**

- In relation to the issues raised in paragraph 8.83 we would point out that the BSC allows one party to MVRN its volumes to another party (although not between production and consumption). If however the small generator is licence exempt then under the BSC it could register as an Export Exempt BMU, which can consolidate with either account. Therefore it would be possible for a small transmission connected generator to manage imbalance risk.
- As regards the second issue raised in 8.83 we can confirm that we currently offer consolidation services within E&W and intend to do so across the GB market.

### **Paragraph 8.89**

- We would not support exempting small generators from BSUoS or charges for transmission losses.

I trust the above comments are helpful to you but please contact me directly should you need to discuss any of the issues in more detail.

Yours sincerely



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