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Your Ref:
Our Ref:

Mr David Halldearn
Director, Scotland and Europe,
Office of Gas and Electricity Markets
9, Millbank
London,
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Dear David

RE: Small Generator Issues under BETTA

Thank you for allowing Highlands and Islands Enterprise (HIE) the opportunity to respond to the above document.

Within an area that is recognised as having access to the largest natural resource for the development of renewable energy within Great Britain (GB) our aim is to promote access and development of these resources for the benefit of GB. We support the introduction of GB wide trading and transmission arrangements allowing Scottish generators access to a larger customers base as well as to those benefits available to generators in a similar class in England and Wales (E&W).

HIE is also a member of the Scottish Renewables Forum (SRF) and fully supports the concerns raised and suggestions made in its response to this consultation.

Whilst appreciating the complexity of issues facing Ofgem in implementing BETTA, we are very disappointed at the missed opportunity available to Ofgem in dealing with fundamental problems that already exist for small generators operating under NETA as well as the additional issues that will be faced by similar generators operating in Scotland under BETTA.

We are concerned that the delay in publishing this document will result in the key issues highlighted in this consultation falling behind the BETTA process and ultimately being "lost" because of time limitations.

Paramount to small developers is the desire to understand how BETTA will impact them financially and operationally. Any changes they face under BETTA need to be straightforward, add little or no cost to the project, and be fair and consistent. Unfortunately none of the proposals contained in this consultation meet those criteria. Indeed they seem to add more cost, confusion and delay to small generator projects for what could be little added

value to this group of generators. Ultimately such obstacles this will impact on the Governments renewable energy targets.

Our comments detailed below follow chronologically the views and proposals expressed by Ofgem in the consultation.

Licence Exemption

We support Ofgem's view that all generators connected before October 2000 and exporting between 50MW and 100MW should be licence exempt irrespective of location, despite of the fact that there is already in existence a system by which such generators can gain exemption.

Classification of 132kV in Scotland as Transmission

We find the arguments put forward for maintaining the classification is Scotland as transmission as flawed and inconsistent. It is recognised within the consultation that some of the distribution network in England and Wales functions as transmission, with the reverse being so in Scotland, where some of the 132kV network functions as distribution. This aggregated functionality of the 132kV network should therefore be considered across the whole of GB. If it is then considered that it mainly functions as distribution, then it should be classified as distribution across the whole of GB.

There is also the concern that this issue is being looked at in the context of how the system has operated in the past and present. No consideration is taken of how the two systems may be operating in the future, especially taking into account the impact of the large volume of distribution-connected generation projects planned for. It is recognised that the current passive distribution networks will become actively managed (similar to transmission). How will the transmission and distribution systems then interact? Surely there is an argument for anticipating what is likely to be needed rather than waiting until there are additional problems to be addressed.

We are also not convinced by the argument that "a reclassification of the 132kV network in Scotland would reduce the benefits of BETTA for a significant proportion of current and, importantly, future generations of 132kV connected demand customers. Such parties would not benefit from the ability to contract for connection and use of system with a system operator independent of generation and supply interests". The implication is that Ofgem perceive that access to the distribution network in Scotland as discriminatory. If that is the case this needs to be dealt with separately. However, it has no bearing on whether there could be a reclassification of the 132kV system.

As to the last argument, regarding cost recovery if the system was reclassified, this is more a theoretical rather than practical issue. As we have stated in previous consultations the wealth of natural resources within Scotland (and specifically the Highland and Islands) is there for development for the benefit of the whole of GB and therefore should be funded by all electricity users within GB. Costs can be recovered via the Distribution Network Operators and passed onto the GB System Operator.

Payment for use of the 132kV network in Scotland

We do not agree with the approach by Ofgem in proposing a rebate as an interim solution to redress the inequalities of small generators in Scotland connected to the 132kV system as compared to the same class of generators in E&W. Fundamentally the rebate does not put the 132KV generators on a par with their E&W counterparts. It is an interim solution, which merely creates another set of uncertainties to generators rather than providing them with a truly transparent, fair, and equitable long-term solution.

Our proposal would be to exempt all generators in Scotland connected to the 132kV system from transmission charges. However, it is reasonable that such generators make a contribution for use of the system. This could be based on a fixed charge equivalent to charges faced by distribution-connected generators in E&W but also allowing them parity with all of their conditions. The SRF response provides further detailed suggestion which we fully support.

CUSC and the BSC

It is our view that all small generators connected to the transmission system should be exempt from the BSC and the CUSC. Whilst we recognise that some form of connection agreement needs to be in place with NGC, we would advocate a standard simplified agreement for all small generators.

Making small generators signatories to the BSC merely adds additional cost, complexity and administration burden on them compared to their England and Wales counterparts. We therefore do not see why this class of generators should sign the BSC.

We therefore share the SRF's view that having a multitude of small generators as signatories to these 2 Codes will place an extra burden on them, while making both Codes unworkable.

Grid Code Issues

The existing situation in Scotland that all generators regardless of size or point of connection are required to provide all mandatory ancillary services unless by agreement otherwise with SP Transmission or SHETL must be brought into line with E&W practice. There needs to be a transparent, market based approach to generators providing ancillary services which is already in existence in E&W. This will ensure system security, at least cost. The GB System Operator under BETTA should deal with this issue. There also needs to be an obligation on the System Operator to remove all regional differences in the Grid Codes and not merely minimise them.

Sending and Receiving Data

We agree it is reasonable for NGC to collect information on the planned import and export of parties who are connected to the transmission system. This information can be provided via the existing EDT provisions in NGC's Grid Code, which will not place an undue burden on smaller generators. If such generators are not required to become signatories to the BSC then the issue of the EDL information disappears. These generators will be selling out put to another third party who will be a member of the BSC and can provide the required information to the System Operator.

Trading Issues

There is a general concern that the existing Trading Arrangements for small generators in E&W disadvantage small renewable generators. Inevitably the consolidation of suppliers within E&W, as well as a number going into administration, has left generators with fewer suppliers/consolidators to contract with. The intermittent nature of the small generator supply has also given suppliers an excuse to heavily discount this supply against base load electricity prices. Our concern is that this pattern will continue under BETTA thus continuing the discriminating against small generators with intermittent output. This issue remains outstanding and it is unfortunate that Ofgem have missed the opportunity to finally address it.

General Comments

In our experience small generators continually find themselves in a position where they are faced with barriers to entry into the market. Removing the legislative and regulatory burden on small generators will help promote new entrants to the market and improve competition which ultimately will be to the benefit of customers. To achieve this small generators (classified as those who would be licence exempt) should not be required to incur IT or other set up costs required to trade their output or meet the demands of regulatory codes. We would strongly encourage Ofgem to identify a method that would allow small generators (and NOT just those connected to the Transmission network) to sell their output with the minimum barrier to entry set up costs. To be of value this work should include generation, distribution, transmission and supply issues. It could also look at the costs on small licence exempt suppliers in order to create a highly competitive market at the small scale thereby providing real encouragement to distributed generation. If the existing barriers to entry remain in both the generation and supply of energy, the current trend of consolidation will continue and can only move further away from perfect competition. This will undoubtedly be to the detriment of the small generator and the customer.

We hope that you find our comments helpful and look forward to your response on this important consultation.

Yours sincerely

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