ScottishPower

energy management

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Dear David,

Small Generator Issues under BETTA
November 2003

Thank you for the opportunity to respond to this consultation. This response 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 transmission charging and losses in a GB market and the division of responsibilities between the GBSO and the Transmission Owners (TOs). An important aspect of those proposals is the manner in which issues arising from the designation of 132kV as transmission in Scotland but distribution in England & Wales are addressed. We therefore welcome this consultation on the treatment under BETTA of small generators connected to the 132kV network, particularly given that it considers implications for both the trading and the transmission arrangements. However, we are concerned that Ofgem/DTI have developed their arguments from the wrong starting point, namely the common treatment of *transmission connections* rather than the need for equivalent *trading arrangements* across GB for all classes of participant. By following this approach, Ofgem/DTI have offered only a partial solution, to only part of the problem, and have effectively denied Scottish licence-exempt generators (LEGs) connected to the 132kV network the trading option chosen by nearly all small generators in England and Wales, namely supplying their local network through contracting with their local supplier. Further, small generators in Scotland may face more onerous technical obligations than their equivalents in England and Wales, under Ofgem/DTI's proposals for the GB Grid Code.

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,

Mike Harrison
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ScottishPower Energy Management Limited

SMALL GENERATOR ISSUES UNDER BETTA

SCOTTISHPOWER UK DIVISION RESPONSE

1 General observations

1.1 The treatment under BETTA of small generators connected to the 132kV network has been of concern to ScottishPower UK Division for some time and the need to address the issue has been a recurring theme in our responses to previous BETTA consultations. We are therefore pleased to be able to respond to this consultation paper published by Ofgem/DTI in November. We are, however, disappointed to find that Ofgem/DTI, despite recognising the potential for discriminatory treatment of Scottish generators relative to their England and Wales counterparts in the British trading and transmission arrangements, have offered only a partial solution to only part of the problem. **We do not consider that the measures proposed by Ofgem/DTI will deliver the fair competition between generators across GB which both ScottishPower and Ofgem/DTI are seeking to achieve**.

1.2 Ofgem/DTI have provided an excellent summary of the current arrangements in England and Wales which highlights that:

- Embedded benefits under the BSC are not available to transmission-connected generators (5.20),
- Distribution connected generators who are not liable for TNUoS charges receive a payment from NGC if they are generating at system peak (5.38),
- The output of the [distribution connected] generator can reduce another party's liability for BSUoS (5.41).

1.3 Ofgem/DTI then propose that these arrangements will not apply to equivalent generators in Scotland.

1.4 It appears that the issue which divides us is the question of "equivalence". **ScottishPower believes that a licence-exempt generator (LEG) connected to the 132kV network in Scotland is equivalent to a LEG connected to the 132kV network in England and Wales**. This view is clearly not shared by Ofgem/DTI who, we believe, have developed their arguments from the wrong starting point.

1.5 It is clear that ScottishPower UK Division, Ofgem/DTI and the Trade and Industry Select Committee are all trying to achieve the same outcome, namely, effective competition in the trade of wholesale electricity across GB. BETTA encompasses reform of both the trading and transmission arrangements. We consider that the trading arrangments are the main element which needs to be reformed, whereas reform of transmission should be regarded as the vehicle by which the common trading arrangements are delivered. Ofgem/DTI appear to have developed their arguments from the existing transmission/distribution classification of generators rather than from the need to provide equivalent trading arrangements across GB. The outcome of this is a set of GB market arrangements within which the Scottish

132kV connected LEGs will be quite clearly at a disadvantage relative to their competitors in England and Wales.

1.6 It should be noted that the TISC recognised this issue. As noted in paragraph 3.10 of the consultation paper, their conclusions stated that:

> 1.1 *"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. ....an equality of treatment must be established among generators connected at 132kV."* [emphasis added]

1.7 The issue of *"supplying only their local network"* is crucial to this argument. The essence of embedded benefits in England and Wales is that parties who trade within the licence area of the local DNO are deemed not to be using the transmission system, do not have to register centrally and can obtain the full set of embedded benefits. Ofgem/DTI, rather than approaching the issue from this trading aspect, have based their proposals on the fact that the Scottish 132kV network is classified as transmission because of its apparent function in the bulk transfer of electricity around Scotland. They therefore argue that a Scottish 132kV connected LEG is not equivalent to an England and Wales 132kV connected LEG because it receives a transmission service. Whether or not the service which it receives is a transmission service, the fact remains that the Scottish LEG does not have the option of supplying only the local network by taking a 132kV distribution service. It is also spurious to argue that differences between distribution and transmission agreements have been a feature of the electricity sector since vesting (8.7). Since vesting, each individual market area has had a set of transmission and distribution arrangements which applied to all participants; what Ofgem/DTI have proposed for GB is a set which will give different rights and obligations to similar generators in different locations. **The trading option chosen by nearly all small generators in England and Wales is acknowledged by Ofgem to be that of contracting with a local supplier, i.e, supplying their local network. To deny equivalent Scottish generators this option is at odds with the fundamental principle of establishing common GB-wide trading arrangements under BETTA**.

2 Implementation Issues

2.1 As noted above, ScottishPower UK Division does not support the proposed treatment of 132kV connected small generators in Scotland. Nevertheless, we would make the following comments, which should not be construed as support for the proposals outlined in the consultation.

Transmission residual charge discount

2.2 We note the argument put forward by Ofgem/DTI that the net disadvantage to a transmission connected generator relative to a distribution connected one equates to

the generator share of the residual charge. While it is true that the locational elements of the charge should net off exactly between the generator and the supplier, this will only be the case if the boundaries of the generation and demand charging zones contain exactly the same nodes. This is not the case in England and Wales at present and is unlikely to be the case for GB. Even were this the case, a discount of this amount, estimated at £2/kW/yr does not appear to us to provide sufficient compensation to enable a Scottish 132kV connected LEG and an England and Wales 132kV connected LEG to compete on equal terms.

2.3 We note the proposal to deliver this measure by including the requirement to provide a discount equal to the residual element of the generation charge in the GBSO licence. This appears to be a suitable mechanism to deliver the measure proposed. However, we also note the proposal to include a sunset clause within the licence condition. We would not support this arrangement. The licence condition should be evergreen and be removed through the normal process when it is no longer required.

3 The CUSC and small generators

3.1 We welcome the fact that Ofgem/DTI recognise the cost to small generators of the complexity of the CUSC. However, we are not convinced that the proposed solution, whereby a CUSC party can take responsibility for obligations associated with the connection of another user, is a feasible or economic solution. As has been found in relation to the BSC, interface services do not come cheap and it may be that this solution would merely convert an internal cost to an external one of similar magnitude.

4 The Grid Code and small generators

4.1 ScottishPower UK Division has recently responded to three consultations[1] on the GB Grid Code and we would refer you to these responses for our views and arguments, an extract from which is reproduced in the attached Appendix for your convenience. In summary of our views in relation to small generator issues, we do not believe that the proposed definitions of small, medium and large power stations are either appropriate or justifiable, nor do we agree that mandatory ancillary services are appropriate for small power stations, hydro units and renewable generating plant not designed for voltage and frequency control.

5 Trading related issues

5.1 We note that Ofgem view trading charges as accounting for "relatively small sums of money" in relation to small generators (8.73). Given that small generators have relatively small revenues this does not seem to be a very strong or principled argument to justify the discriminatory treatment of small 132kV connected

[1] The Grid Code under BETTA, September 2003; GB Grid Code, Operating Codes 1, 2, 6, 7, 9, 10, 12, October 2003; GB Grid Code, Connection Conditions, Operating Code 5 and General Conditions, November 2003.

generators in Scotland. Such generators should not be liable for Elexon charges on the same basis as large generators.

5.2 As noted above, the trading option chosen by nearly all small generators in England and Wales would not be available to generators connected at 132kV in Scotland under Ofgem/DTI's proposed treatment. Whether or not the small generator is relieved of the obligation to be a party to the BSC, the absence of this trading option is clearly discriminatory and must be rectified. The possible development of commercial consolidation services, which are unlikely to be cheap, is not an adequate substitute and should be viewed as being no more than the "least worst" option.

6 Closing comments

6.1 While all our points above relate to small generators in general, it should be further noted that in practice they will apply predominantly to small renewable generators. This demonstrates that the potential exposure to high locational TNUoS charges is only one of several ways in which such generators would be disadvantaged by the proposed GB arrangements. Small renewable generators in Scotland may also be denied the option of opting out of the industry codes and supplying their local area through trading with their local supplier, and may also face more onerous technical obligations than their counterparts in England and Wales. Further, renewables by their very nature tend to be intermittent, making it difficult for small renewable generators in Scotland to comply with Grid Code obligations (such as mandatory ancillary services) which may not be required of their counterparts in England and Wales due to regional differences.

6.2 Therefore, in addition to not providing a level playing field for all types of generator across GB, Ofgem/DTI's proposals are inconsistent with the government policy to promote renewable generation.

APPENDIX – REGIONAL DIFFERENCES IN GRID CODE REQUIREMENTS

Paragraph 4.1 above referred to our responses to the recent consultations on the GB Grid Code, for our views on the Grid Code obligations to be applied to small generators. There follows an extract from our response to the September 2003 consultation on the GB Grid Code, for more details on these views.

1 "MW Levels for Data Requirements

1.1 "ScottishPower UK Division is disappointed at Ofgem/DTI's proposals regarding the MW levels for data requirements under BETTA. To apply different definitions of small, medium and large power stations in each transmission licence area is the antithesis of a market with a single set of trading and transmission arrangements, is clearly discriminatory, and is contrary to the opinion expressed to the Trade and Industry Select Committee by DTI that "*where generators are undertaking the same activity, merely in a different part of the country, they should be treated in a non-discriminatory way*[2]*."* The comprehensive and detailed proposals contained in this paper appeared to pre-empt any further discussion of the treatment of small generators under BETTA in the long awaited consultation paper on that subject. The content of that paper, published shortly before this consultation closed, confirmed our fears that small generators in Scotland will be at a disadvantage under BETTA relative to their competitors in England and Wales. We will of course respond separately to the small generator consultation. For the moment however, we wish to make it clear that our comments on the Grid Code are subject to further consideration of the overall technical and commercial environment which is being proposed.

1.2 "The Ofgem/DTI proposals regarding MW levels seem to be based on two premises, that small generators in Scotland are already subject to these arrangements, and that they need to be subject to these arrangements under BETTA. Neither of these arguments withstands scrutiny.

1.3 "In the first place, whilst all generators in Scotland are bound in to the Grid Code through either their transmission connection agreements or through the Distribution Code, the provisions of the Grid Code are subject to "as otherwise agreed" clauses such that, in respect of information requirements for instance, "*it may be possible to relax certain requirements on a temporary or permanent basis*[3]*."* Appropriate arrangements can therefore be put in place with each individual generator. What is proposed here appears to be a blanket application of the more onerous of either the England and Wales or Scottish Grid Code provisions.

1.4 "Secondly, the paper argues that these provisions are required because of the physical characteristics of the transmission network, and especially of the 132kV network, in Scotland. Ofgem/DTI have not acknowledged that one of the main differences between the Scottish networks and the NGC network is their system control strategies. In both the Scottish networks the system operator is required by

[2] Government response to the Trade and Industry Committee's Fifth Report of Session 2002-3 (HC 468-1)
[3] Scottish Grid Code, Preface, paragraph 5.1

the British Grid Systems Agreement to control the generation/demand balance to a defined standard of inter-network transfer error, whereas NGC despatches England and Wales generation to minimise system frequency error. Clearly, a finer degree of control is required on a smaller network than a larger one; hence the lower central despatch limits in Scotland. Under BETTA the control strategy for the entire GB network will be to manage system frequency. Under this strategy, the equivalent of the central despatch limit relates to the GB-wide generation/demand balance and can be the same on all parts of the network. The distinctions which Ofgem/DTI seek to maintain are unnecessary.

1.5 "In any case, the logical conclusion of Ofgem/DTI's argument about the physical characteristics of the network would be, as now, the ability of the network operator and the generator to agree which conditions need to be applied in specific circumstances and which need not be. Indeed, this appears to be the view of DTI. When responding to the TISC, DTI stated "*We also believe that the treatment and definition of a particular piece of the network should be based on what that piece of the network is used for*[4]*."* It seems to us to be illogical to conclude, as has been done here, that a blanket geographical definition is the best way to deal with issues associated with local network characteristics. Such a conclusion could result in a 90MW station on a relatively weak section of 132kV distribution network in rural Wales being treated quite differently from, and less onerously than, a 9MW station on a relatively strong section of 132kV transmission network in the north of Scotland. Furthermore, we do not support the continued extension of the reach of the GBSO to smaller and smaller generating plants. Quite apart from the practical difficulties caused by the magnitude of the control task, such an arrangement seems to be inconsistent with a future in which generation will be widely distributed across networks of all voltage levels.

1.6 "ScottishPower UK Division supports Ofgem/DTI's view that it would be simpler to have a single set of MW levels across the whole of GB and would urge Ofgem/DTI to implement such an arrangement, with the possibility of agreement of more onerous arrangements where these are clearly justified, at the start of BETTA. To implement regional blanket arrangements under which, as suggested in paragraph 4.99, the only possible relief will be where this results in "unsurmountable difficulties" rather than, for example, where this results in a potential distortion of competition (and then only for licensed generators) is unsatisfactory. Nor is it satisfactory to impose the conditions and subsequently relax them, as suggested in paragraph 4.100, as any costs of compliance will already have been incurred, unnecessarily, further weakening the Scottish generator relative to England and Wales competitors.

1.7 "As for the notification level for consumption BM Units, proposed to be 5MW (paragraph 6.64), this is a particular example of the control strategy/despatch limit arrangements discussed above and was appropriate for the transfer control strategy between networks which supplied large amounts of dynamically controlled radio teleswitched demand. As the concept of interconnector transfer control will

[4] As footnote 1

disappear under BETTA there is no reason to retain the 5MW notification level for demand in Scotland; a harmonised level of 50MW across GB will be satisfactory.

1.8 "As regards the definitional issues surrounding the introduction of directly connected small and medium power stations, care will be required to ensure that any obligations on gensets are not applied unnecessarily to small generators which are bussed before connecting to the transmission system through a single connection point."