Small Generator Issues Under BETTA

Ofgem/DTI Consultation November 2003

SP Transmission Response

SP Transmission Limited (SPT) welcomes the opportunity to respond to this consultation on small generator issues under BETTA. Under BETTA SPT will be a transmission owner and will not have a direct commercial relationship with generators connected to SPT's 132kV transmission assets i.e. SPT will not have responsibility for transmission connection, access or charging. Nevertheless, SPT has a significant and relevant interest in ensuring that there is sufficient scope for the development of its transmission network. This is dependent upon appropriate GB-wide arrangements that treat all parties on an equal and non-discriminatory basis.

SPT is concerned that Ofgem/DTI's proposals in this consultation paper will frustrate the connection of smaller generators in Scotland.

Fundamental to our concerns are the level of costs faced by small generators in Scotland when compared with small generators in England and Wales. We believe that GB-wide transmission charging arrangements must be designed to facilitate Government energy policy and in particular encourage investment in renewable generation capacity. This is of special relevance to Scotland where the Scottish Executive has placed a target of 17% – 18% of electricity being generated from renewables by 2010.[1]

It is important that the overall arrangements provide visibility and stability of the total transmission costs faced by system users in order to prevent uncertainty over charges forming a barrier to entry. Ofgem/DTI has noted some of the Trade and Industry Committee's comments in this consultation. It is clear however that further attention has to be given to ensure that there are appropriate arrangements across GB that promote security of supply and renewable generation capacity throughout GB.

In addition, Article 7(6) of the European Renewables Directive requires transmission and distribution charging not to discriminate against electricity from renewable energy sources. In terms of renewable generators connected at 132kV in Scotland, SPT believes that Ofgem/DTI's proposals in this consultation do not adequately address this Directive.

SPT's interest includes the treatment of small generators located in its area at both transmission or distribution voltages. Although SPT will no longer be responsible for

[1] The Scottish Climate Change Programme – November 2000

setting transmission charges, SPT will continue to have licence obligations and the charging regime will impact on the ability of SPT to discharge those licence obligations.

In addition, the methodology employed in setting charges and the level of charges will be a key part in securing that each transmission licensee's business continues to attract an appropriate level of investment. Clearly a transmission charging structure that actively discourages connections to a transmission licensee's network would have an impact on that business' sustainability. We also believe that significant changes in charges should be phased in on a similar basis to NGC's phasing arrangements for locational TNUoS charges in the mid-1990's.

Specific comments by SPT on Section 8 of the consultation paper are now discussed.

Charging and 132kV transmission connected generation

We agree with Ofgem/DTI's statement in 8.10 that transmission licensees have obligations not to discriminate and to promote competition and in order to fulfil these objectives the charges applied should be cost-reflective. We also agree that it is important that the legitimate cost-reflective differences between parties are recognised in the charges they face. SPT accepts that both distribution and transmission costs should be taken into account when considering the impact of generators connected at 132kV or below. The overriding principle should be that there is equal non-discriminatory treatment between generators connected at 132kV in Scotland with generators connected at 132kV in England and Wales. This must include parity of both network costs and "embedded benefits" and Ofgem/DTI's interim proposal to rebate TNUoS tariffs by £2/kW does not address this requirement.

We note that Ofgem/DTI accepts that in the longer term the best approach is to undertake work to ensure greater consistency of charges and benefits between transmission and distribution connected generators. The recent consultation from NGC on GB TNUoS tariffs gives indicative tariffs that will result in making it prohibitively expensive to run generation in Scotland. SPT considers Ofgem/DTI's proposal for a £2/kW tariff discount on generator TNUoS tariffs to be completely inadequate as the cost differences between generators connected at 132kV in Scotland compared to those connected at 132kV in England and Wales are far greater than the proposed tariff discount. If the only option is an interim measure to rebate TNUoS tariffs then the proposed discount will have to be considerably greater in order to ensure parity of treatment between generators connected at 132kV in Scotland with those connected at 132kV in England and Wales. With the overall level of transmission charges in Scotland anticipated to increase dramatically under NGC's charging methodology, we also believe that TNUoS charges under BETTA should be phased in.

As we have already commented in previous consultations, we agree that charges should be "cost reflective". However we continue to question whether locational TNUoS charges meet this criterion. It is also important that transmission charges are stable and ensure the equitable allocation of costs between users. Although there is a case for marginal cost type charging in a competitive market, the justification for marginal cost type charging in a monopoly transmission network with large sunk costs is open to question. The setting of transmission charges is a complex matter that requires the person formulating the charges to weigh up a variety of matters. The use of marginal cost pricing must be weighed up against the importance of providing generation and load customers with a stable framework of charges against which they can take the long - term investment decisions that significant capital projects require. The setting of charges must also take into account the wider public good that arises from network investment, as a result, for example, of increases in the security of the total GB network and the promotion of renewable generation.

GB Grid Code and small generators

SPT agrees that the transition to a GB Grid Code must not in any way reduce system integrity or the ability to meet operating standards. However, as we have discussed in our responses to the various Grid Code consultations, the GB Grid Code proposals go impose significantly more obligations on the operators of smaller plant connected to the Transmission system in Scotland.

These obligations are being driven via a number of routes:

- the imposition of smaller thresholds in Scotland than in the rest of GB
- the imposition on a blanket basis of conditions for small, hydro and renewable plant without recognition of the historical arrangements and capability of this plant
- the need to apply for formal derogation from the GB Grid Code for this plant
- the decision taken, before the publication of this consultation not to allow for "cascade hydro" in the GB Grid Code.

The net result is the imposition on these Generators of the most onerous obligations of both the existing England and Wales Grid Code and the Scottish Grid Code.

The suggestion that "in the longer term it appears appropriate to seek to harmonise obligations across GB where possible. However, this should only be undertaken following a comprehensive process of review and in the light of experience of operating a GB transmission system." However, in the interim, the appropriate generators would have incurred costs in setting up systems and processes to deal with these obligations.

For example, we note Ofgem/DTI's view that "the existing provisions of the BSC and the Grid Code enable small generator in effect to appoint an agent for EDL based

communications. In addition the EDT provisions in NGC's Grid Code would not represent too onerous a burden on small transmission connected generators".

The loss of flexibility compared to the current despatch of cascade hydro, and the loss of flexibility compared to current generators with plant at 132kV in England and Wales will impose a significant burden on Users. Additionally, SPT's experience in providing access to Interconnector Users on the Scotland-England Interconnector, which requires such Users to comply with NGC's requirement for EDT and EDL communication infrastructure, is that the EDT and EDL requirements do act as a considerable barrier to entry.

GB CUSC and small generators

It is relevant to note that the generator in Scotland may, in addition to entering into CUSC arrangements, also have to enter into mandatory "interface" contracts with the Scottish TOs to cover such items as safety and site access. The consequence of managing both the TO interface arrangements TO and the GBSO CUSC arrangements will impose greater costs on transmission connected 132kV generators in Scotland compared with distribution connected 132KV generators in England and Wales.

We note Ofgem/DTI's suggestion in 8.48 for one CUSC party to take responsibility for the obligations of another CUSC party. This may well minimise effort for the user but would result in further additional costs to pay for this service.

Trading Charges under the BSC

Ofgem/DTI proposes that the current structure of charges under the BSC in England and Wales should be applied broadly on the same basis for a GB BSC. SPT would restate that there must be parity of overall costs between generators connected at 132kV in Scotland with those connected at 132kV in England and Wales.

Trading Options for small transmission connected generators

Ofgem/DTI has outlined various options for small generators in England and Wales to sell their output and notes that the most popular option is to contract with a local supplier to avoid central balancing and settlement arrangements. It is important to note that this option allows these generators to receive an "embedded benefit" as a consequence of reducing the GSP group demand. This option, and the related cost-saving, would not be open to generators connected at 132kV in Scotland under the present proposals. Again SPT would emphasize that the overriding principle must be parity of overall costs between generators connected at 132kV in Scotland with those connected at 132kV in England and Wales.

Ofgem/DTI's proposal to remove the obligation for a 132kV connected generator in Scotland to be a BSC party with its output being accounted for by a party acting on behalf of the small generator i.e. via a consolidator. As SPT is interested in ensuring that that there is a level playing field for all 132kV connected generators this proposal must also be considered against the overall commercial arrangements. This proposal will increase the Scottish generator's costs.

Access to consolidation services

Ofgem/DTI notes that for small 132kV parties in Scotland may not require to be parties to the BSC if another party i.e. a consolidator took responsibility for the generator's output under the BSC. Ofgem/DTI's view is that the current arrangements in England and Wales provide a sound basis for the growth of consolidation services. SPT cannot comment on whether or not the present BSC arrangements provide a sound basis. Again SPT would emphasize that the overriding principle must be parity of overall costs between generators connected at 132kV in Scotland with those connected at 132kV in England and Wales.

Summary

- SPT is concerned that Ofgem/DTI's proposals in this consultation paper will frustrate the connection of smaller generators in Scotland.

- In light of the Trade and Industry comments, it is clear that further attention has to be given to GB-wide commercial arrangements to promote security of supply and renewable generation capacity throughout GB.

- The overriding principle should be that there is equal non-discriminatory treatment between generators connected at 132kV in Scotland with generators connected at 132kV in England and Wales.

- The interim measure to rebate TNUoS tariffs by £2/kW on Scottish generators connected at 132kV is insufficient to ensure equal treatment with equivalent generators in England and Wales

- As transmission charges will increase considerably in Scotland under NGC's charging methodology, TNUoS charges should be phased in.