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Dear David

Response to the DTI/Ofgem consultation on Smaller Generator Issues under BETTA

Scottish Renewables Forum is Scotland's leading renewables trade body. We represent close to 100 organisations involved in renewable energy in Scotland. Further information about our work and our membership can be found on our website.

Firstly, thank you for the opportunity to respond to this important part of the BETTA process. We have the following points to make on the above consultation.

Scottish Renewables Forum supports the principles behind the BETTA project - which are worth restating (see Ofgem Factsheet 25, March 2003) - that BETTA will:

- "Bring more competitive prices and greater choice to all electricity customers, particularly those in Scotland and the fuel poor, and
- Mean that renewable and other generators, particularly in Scotland, will benefit from access to a wider British market."

However, it is our view that the smaller generator consultation contains proposals that will frustrate rather than support achievement of these objectives.

Also, we would note that the consultation, although over 8 months late, does not adequately address the issues surrounding smaller generators, and leaves much for future decision and discussion. This is no way to reassure smaller generators – particularly those working in Scotland – who are likely to be one of the major groups seeking new connection to and use of the grid between now and 2020.

Scotland is set to be one of the main contributors to the Governments renewable energy targets in the early years. It therefore has an important role in delivering power to ensure



consumers get renewable power from their suppliers who are charging them for it whether it is delivered or not.

We also feel that the proposals in the consultation do not adequately address concerns raised by the Trade and Industry Select Committee in its report (HC 468-I) into BETTA.

The Committee noted that:

“A fair and equitable market requires that all participants are treated on the same basis... Whether by regulation or amendment of the industry codes to exempt smaller generators from the burden of transmission charges, or by other means, an equality of treatment must be established among generators connected at 132kV.”

In the Smaller Generator consultation Ofgem agree that it is important that the new arrangements promote a competitive wholesale market by providing non-discriminatory access to the market for all generators in the GB market, including small generators.

However, Ofgem’s proposed solution to remove this discrimination does not achieve this, because Ofgem have underestimated the cost differences that will be borne by generators connected at 132kV in Scotland compared to those connected at 132kV in England-Wales.

Ofgem’s proposed £2/kW Transmission Use of System (TUoS) charge rebate is insufficient to remove the discrimination that will be felt by Scottish connected smaller generators.

We would urge you to recalculate the figures using Net Present Value comparisons, so that distribution deep connection charges can be compared properly to transmission shallow charging. On this basis, comparisons become realistic.

On current charges applied in England, Wales and Scotland, we calculate that the difference would be as much as £13/kW. Under new National Grid proposals, we calculate that on a best-case scenario the difference will be as little as £6/kW but could be as much as £44.68/kW. Either way, the the difference is not removed by a £2/kW rebate.

We find it odd that Ofgem have spent much of the smaller generator consultation running through proposed solutions that have been put to it in the various other consultations that have taken place under BETTA. However, Ofgem discount all of them as inappropriate or simplistic, yet instead propose a mechanism we see as both inappropriate and simplistic.

Our proposed method of removing discrimination for smaller generators connected at 132kV in Scotland (and therefore meeting the requirements set out in the Trade and Industry Select Committee report) would be to compare them to distribution connected (132kV) generators in E&W and give them parity with all of their conditions. In particular we wish to see the following:

1. Ensure that use of system charges are equivalent in England-Wales and Scotland. The level proposed is inadequate for this purpose. In terms of how this is done, offering a rebate is the wrong approach as it will create legislative and financial uncertainty because it leads to the question of “a rebate from what?”

Given proposals from National Grid for transmission charging, TUoS charges could change annually, meaning that a rebate might be sufficient one year, but not the

next, depending on new connections in different transmission and distribution areas. The best way to ensure discrimination is removed is to set a fixed TUoS tariff for smaller generators connected to 132kV. This tariff should be equivalent to charges faced by generators connecting to 132kV distribution in England and Wales.

Because distributed generators in England and Wales are currently charged on a deep connection basis, and transmission connected generators are charged on a shallow connection basis, direct charging comparisons are problematic. We estimate that proposed distribution charges in England and Wales equate to approximately £5 to o£6/kW and so it is therefore equitable that TUoS charges in Scotland should be equivalent to this.

2. Ensure that locational signals cannot be used to impose onerous conditions on smaller generators in Scotland. Charges proposed by National Grid are dependent on a number of assumptions, and as such could change. Whether charges change we are of the view that the charges highlight the simple fact that the current locational charging methodology for England-Wales is unsuitable for extension to GB.

It is our view that any locational signal element of a charge should be capped at a level where it acts as a positive signal rather than as a penalty. We would therefore propose either:

- a. That locational signals are removed, and TUoS are set according to the postage stamp principle. Another separate charging signal should be developed to encourage new generation to locate in high areas of demand. Any such locational charge should not be punitive and its value should be capped so that it cannot be greater than the GB postage stamp TUoS.
- b. That TUoS charges be made up of two charges: the GB average TUoS (assumed to be £5/kW) and a positive or negative multiplier that can be applied to this TUoS charge up to +/- 100%. The level of this multiplier can be calculated in a manner similar to how NGC are currently proposing.

Whether option (a) or (b) is chosen, any TUoS charge must not be a “mirage incentive” that disappears when claimed, but be realisable and bankable, i.e. it is offered for a fixed period (for example 10 years) that will provide sufficient certainty to a developer to raise finance for new projects.

It is our view that options (a) or (b) would provide a charging system for GB that would not penalise development and generation in Scotland, but would provide an appropriate level of signal, be bankable, proportionate and equitable.

Much of this relates to the National Grid consultation on transmission which we will be commenting upon in more detail. However, this is of key relevance to smaller generators in Scotland because a class of generators in Scotland will be exposed to such charges while similar generators in England-Wales will not, thus creating further discrimination. We are concerned that an incorrect TUoS charging methodology will make this smaller generators consultation an academic one by removing all incentives for generation of any kind in Scotland.

3. Ensure that smaller generators connected to 132kV in Scotland are automatically exempt from the BSC and the CUSC. In its consultation document Ofgem sets out reservations to this approach.

It is our view that having a multitude of smaller generators as signatories to these two codes will place extra discriminatory burdens on smaller generators in comparison to English and Welsh equivalents, while also making the CUSC and BSC less-workable due to the vastly increased number of parties involved.

Therefore it is in the interests of smaller generators, system operators, transmission owners and the regulator to set this exemption and we would recommend this approach to Ofgem.

4. Clarify how transitional arrangements will apply, and for how long. We accept that transitional arrangements are necessary, with reservations. Partly we feel that this is due to the fact that this consultation is late, and that any other recommendation would frustrate implementation of BETTA.

However, we are concerned by Ofgem's proposed options for transmission arrangements. It is our view that transitional arrangements should remain in place until such as time as two things happen: (a) that distribution moves to shallow charging in England and Wales (likely to be after the next price control review) and (b) upgrades to Scottish transmission have occurred (i.e. implementation of the Renewable Electricity Transmission Study (RETS) which will see the bulk of long-distance 132kV transmission lines changed to 275kV or 400kV).

When (a) and/or (b) have occurred, there will be full understanding of the completely reformed GB transmission AND distribution systems, and clarity of charging. There will also have been a move in Scotland away from using 132kV for the bulk of transmission, making reclassification an option.

We would therefore propose that Ofgem set a clearer benchmark for the review and termination of transitional arrangements. Thus they should continue until shallow connection charges are applied to England and Wales (when a new rebate figure could be set with certainty) and/or until the Scottish 132kV system is ready for reclassification at which point discrimination will cease.

5. Revisit the issue of how the future GB Grid System Operator is regulated and licensed. December saw the release of National Grid Company's (NGC) initial transmission charging proposals, which seek to cost out the preferred charging model of Ofgem. While these charges are for consultation, their release shows how if not suitably licensed, once BETTA is active, NGC could implement a charging regime that frustrates achievement of other objectives, including UK Government energy policy and the wider principles of BETTA.

It is clear that a system that can suggest a £20/kW charge for TUoS is one which allows discrimination, raises the prices to consumers and jeopardises security of supply. Any locational model which ignores the ability of the planning system to deliver new generation and associated infrastructure will only produce a system that imposes penalties on those able to generate but which will never deliver the desired results of supporting new generation, in particular from renewable sources.

We therefore would restate from previous consultations our view that NGC should be given a supplementary licence condition that it must seek to support achievement of UK Government Energy policy. Without this there is a danger that the UK Government, Ofgem and NGC will all be working to different objectives that conflict each other and make achievement more difficult. The end result of these conflicting objectives will be extra cost to consumers, which is of fundamental concern to us all.

6. In development of transfer arrangements between current Scottish arrangements and BETTA go-live there is a need for clarification about how NGC will meet obligations given to smaller generators by the two Scottish Grid companies.

Generators now being connected to the grid, or being given grid connection quotations and offers, need the reassurance that these obligations will be taken on by NGC. At present it is unclear that NGC has any obligation to do this. If this is not remedied by a condition set on NGC, and a statement of intent from NGC to this effect, then there will be huge uncertainty and financial instability added to the renewables market in Scotland.

In noting, all of the above, we would refer you back to the original two headline aims of BETTA. It is our view that current provisions for smaller generators and likely charges will:

- (a) frustrate connection of smaller generators in Scotland, meaning that targets for renewables electricity generation are undershot.
- (b) lead to consumers paying for a ROC market that does not deliver renewables, but only generator penalties. It must not be forgotten that the market to deliver new renewables is being funded by the consumer. Imposing costs on to the electricity market that take the money from consumers without delivering the desired projects is inequitable.
- (c) threaten the security of supply in Scotland for all consumers by imposing inequitable and unaffordable TUoS charges that will bring into question the viability of all the conventional generation operating in Scotland.

We would also like to note that on the issue of how the smaller generator consultation and how this relates to other consultations, the other codes and the draft Energy Bill, we would note that such codes are now in an advanced state, and legislation is moving apace through the UK Parliament.

Despite assurances we remain concerned that the BETTA preparation process continues at a rapid pace, with the exception of smaller generator issues which have been sidetracked and given a low priority across the whole BETTA process. We would therefore seek clarification for how Ofgem plan to take on board comments from this consultation and ensure that necessary changes can be made to relevant codes and legislation.

We hope that you have found the above comments of help. If you require any further information or would like to discuss the views set out further, we would welcome the opportunity for further discussion.

Many thanks for your time and consideration and we look forwards to the response from Ofgem-DTI to this consultation.

Finally, it is also worth noting that we are looking forward to an opportunity to comment further and discuss the many issues raised in this consultation and response, and would like to thank Ofgem for arranging a follow up seminar on the 5th February in Glasgow. We are sure that there are many others in Scotland who will also be seeking to raise similar issues at this event.

Yours sincerely

Maf Smith
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