

David Halldearn
Director, BETTA and Europe
Office of Gas and Electricity Markets
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London
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BETTA.consultationresponse@ofgem.gov.uk

20th January 2005

Dear David,

BETTA “minded to” statement on the interim discount for small transmission connected generators

Scottish Renewables Forum (SRF) is Scotland's leading renewables trade body. We represent over 120 organisations involved in renewable energy in Scotland. Further information about our work and our membership can be found on our website.

SRF welcomes the opportunity to respond to this consultation on an interim discount for small transmission connected generators. This response has been prepared in collaboration with the British Wind Energy Association.

Firstly it is important to state clearly that we continue to have serious reservations about NGC's charging methodology and its application to GB tariffs under BETTA. However, it would appear that, for an initial period at least, some variation of NGC's model will be employed at BETTA go-live. We therefore agree that, in these circumstances, it would be appropriate to apply a discount to NGC's tariffs for small generators connected to the 132kV system in Scotland to ensure that discrimination between this group of generators, and the equivalent group connecting in England and Wales is minimised.

We agree that it would not be appropriate to link the 132kV discount to the level of the generator residual charge, since this is sensitive to assumptions in NGC's charging model. However, the sum of the generator and demand residual components is relatively unaffected by the model parameters, and we agree that in the interim period before a more comprehensive review of tariffs the sum of these should be used as the basis of the discount.

However, we do not agree with Ofgem's analysis that the discount should be 25%. Part of Ofgem's rationale is an assumption that the “embedded benefit” for generators in E&W is shared 50/50 between supplier and generator. For generators registered in SVA, there



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is clearly a negotiation between supplier and generator. However, a precedent has been set in that Ofgem have separately determined that for NFFO generators the sharing of benefits should be 80/20, with the generator getting the 80% share. Also, for CVA registered generators, the benefit is paid directly to the generator by NGC. 132kV registered generators in Scotland would be compelled to be CVA registered, so the like-for-like comparison would be with CVA registered embedded generators in E&W. It is therefore incorrect to discount the benefit by 50% before consideration of the effect of “deep” connection charges and it should be assumed that embedded generators receive 100% of the benefit.

At present, embedded generators pay a deep connection charge; whereas transmission connected generators pay a shallow charge, meaning that more of the network charges are recovered through TNUoS. It is therefore appropriate to make an adjustment to the discount because of this difference in charging.

However, the charges for distribution connected generators from April 2005 will be on a shallow basis, but the generators will face a new use of system charge. This charge has been estimated at up to £5/kW.

The discount, on a like for like basis should therefore be sum of the generator and demand residual components - 5, which would be around £8/kW rather than the £4 proposed by Ofgem. This would be broadly equivalent to a discount of 50%, rather than the 25% proposed by Ofgem.

Also, we would ask what the situation would be for an embedded small generator that “is in sight of” the transmission system (i.e. one that may need to export through a grid supply point to the transmission system)? It seems to our reading that under the proposed arrangements if this generator were to sign a Bilateral Embedded Generation Agreement they would not be eligible for the small generator rebate. Please would you confirm that this is not the case, and that such a generator would also receive this benefit? If this was the case this would clearly be discriminatory and penalise this class of generator.

Finally, it must be said that we are disappointed that at the end of a long consultation period, issues such as this are still to be resolved. Much of what we have said above will depend on Ofgem’s conclusions on their “Treatment of Embedded Exemptable Large Power Stations under BETTA”, and much of what has been said within your statement on a discount is at variance with assumptions on discount used previously by Ofgem, NGC and industry following the 10 months of consultation on transmission charging by NGC prior to Ofgem’s intervention and rejection of your proposals in late 2004.

In engaging within this consultation process we had sought clarification from Ofgem during 2004 about the issue of embedded generation and its treatment by BETTA. We had been assured that this was not a problem; but only in late 2004 did we see a consultation on this issue (via EELPS) that in the end proved wide-ranging and proposed highly worrying changes to the position of embedded generation.

It is therefore disappointing that even at this late stage in the consultation, little more than two months before go live, our understanding of how BETTA will work is still incomplete, so our responses to remaining issues are still clouded in uncertainty because key issues - which should be decided upon and understood – are still in discussion.

I trust that this position sets out our views clearly, but if you have any questions please feel free to contact me at any time.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Maf Smith', with a stylized, cursive script.

Maf Smith
Chief Executive