



Fred. Olsen Renewables Limited
Kings Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

Tel: 020 7931 0975

Fax: 020 7931 7449

VAT Reg No. 792 2100 49

Mr David Halldearn
BETTA Project
Office of Gas and Electrical Markets
OFGEM
9, Millbank
London
SW1P 3GE

7th February 2005

Dear Mr Halldearn

Re: Treatment of Embedded Exemptable Large Power Stations under BETTA

Fred. Olsen Renewables (FOR) welcomes the opportunity to make further comments regarding the consultation in respect of Embedded Exemptable Large Power Stations (EELPS).

FOR continues to question the requirement for this consultation and the need to impose obligations of Large power stations on relatively small generators in Scotland.

We welcome Ofgem's recognition that currently EELPS do not have sufficient information to make a choice between a BEGA and a BELLA. The ability to switch between agreements without loss of rights is a practical solution. Unfortunately we do not believe that full clarity will be forthcoming by October 2005. Under item 1.6 of the recent consultation Ofgem recognise that further consideration of access rights and charging mechanism for embedded generation will be given at the next transmission price review. FOR strongly believes that the right to switch should remain until such a review is completed.

FOR is also concerned that recent consultation did not fully address the concerns raised by respondents concerning access rights offered by the BELLA (principally set out in items 3.13, 3.14 and 3.15) and we are still concerned that by entering a BELLA we would surrender access rights we currently enjoy under our existing agreements.

While we take comfort from your statements in 4.10 and 4.11 that the BELLA proposal is for partly technical compliance of the grid code and by electing to enter it EELPS should not be subject to constraint under circumstances that are different from embedded generators who do not have direct agreement with NGT. A clear statement of the conditions of how an EELPS generation could be restricted or constrained under both BEGA and BELLA would be most helpful in allowing a full comparison to be made.

FORL also do not consider that the consultation has taken fully into account the effects these proposals will have on existing commercial arrangements for EELPS. The consultation paper sets out a requirement that EELPS signing a BEGA must be registered as a BM Unit in the Central Meter Registration Service (CMRS) with their energy settled through Central Volume Allocation (CVA), whilst EELPS signing a BELLA must be registered in Supplier Meter Registration Service (SMRS) with their energy settled through Supplier Volume Allocation (SVA). We believe that this is unduly prescriptive, is unnecessary and runs counter to present trading practices under NETA. Furthermore, FOR believes this will unduly constrain the number of contractual counter-parties that EELPS may be able to enter into contract for and may undermine the existing contractual arrangements of EELPS.

At present EELPS may register either in CMRS or SMRS. In either route the arrangements allow generators to realise embedded benefits and to receive a very similar commercial value for their generation. This is no accident, considerable work was undertaken by the industry and Ofgem (largely through the Specials Expert Group), in the run up to, and immediately after, NETA go-live to ensure the two sets of arrangements were equivalent, in the drive to promote consolidation.

In practice, almost all embedded generation is registered/traded via one of two routes¹:

- SMRS/SVA registered under the Base BM Unit of a supplier; or
- CMRS/CVA registered as a BM Unit by another BSC Party as part of a Consumption Trading Unit with a supplier.

Generators are largely indifferent to which of these two routes they are registered/traded by, as the commercial value to the generator is very similar. It follows that the choice of routes lie largely with the generator's counter-party. Any change to registration to give effect to the choice between a BEGA or BELLA would therefore require the agreement of the counterparty and may involve renegotiation of the commercial arrangements for that generator. These commercial arrangements, typified by Power Purchase Agreements (PPAs), tend to be of a minimum of twelve months duration, and more typically are of medium term (3-5 years) or long-term (10-15 years) duration. Any requirement to reopen these contracts could lead to a reduction in value for the generator (if market conditions have deteriorated since they were signed – as could the case for any agreement entered into in the last 18 months), may contravene the terms of the generator's financing arrangements with lenders or at the very least will incur management and legal costs.

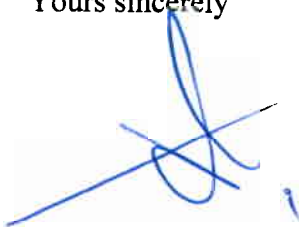
¹ Whilst other options exist, including Additional BM Units in SMRS/SVA or standalone production Trading Units in CMRS/CVA, but these are rare exceptions.

Most generators will have already contracted forward in respect of BETTA go-live, on the basis of their understanding of proposed arrangements (largely based on NETA in England and Wales). The consultation's presumption that a generator can change its registration/trading route less than two months prior to BETTA go-live demonstrates a lack of understanding of the commercial arrangements of EELPS.

All this is unnecessary. There is no need for BELLAs and BEGAs to be linked explicitly to the choice of registration/trading option. Exemptable generators in England and Wales have been, (and for Medium and Small generators) will continue to be able to register in CMRS/CVA as BM Units without needing to accede to the CUSC or sign a BELLA or a BEGA. To suggest (as the consultation does in 4.15) that EELPS cannot be registered in CMRS/CVA and sign a BELLA is perverse and discriminatory.

Furthermore, SMRS/SVA registered/traded exemptable generators have also been, (and for Medium and Small generators) will continue to be able to participate in the Balancing Mechanism to date in England and Wales (either from a Base BM Unit or Additional BM Unit), and therefore it is also perverse and discriminatory to suggest that this route would not be available to EELPS signing a BEGA.

Yours sincerely



N A Emery