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Dear Mark

SRF Response: Structure of electricity distribution charges - Consultation on the longer term charging framework

Scottish Renewables Forum (SRF) is Scotland's leading renewables trade body. We represent over 140 organisations involved in renewable energy in Scotland. Further information about our work and our membership can be found on our website.

Firstly many thanks for providing a chance to respond on what is an important issue for a large number of generators in the Scottish renewable electricity market. This response has been formulated by the Scottish Renewables Forum following internal discussion within the Forum membership, and is submitted in cooperation with the British Wind Energy Association.

Summary

SRF welcomes the review of distribution network charging and looks forward to contributing to this work. We feel that there has been little consideration of issues posed by connection of renewable generation and set out a few thoughts

SRF believes that discussion of charging arrangements should not be undertaken without consideration of the arrangements for access to the system and the links between transmission and distribution. We have provided some comments on access that we believe to be relevant in this response.

Future development of distribution charging arrangements

SRF notes that the future development of distribution charging arrangements will be led by the Distribution Network Operators but that the Ofgem conclusions from this current consultation process will set out the longer term principles.



SRF considers it important that, as far as possible, the DNO development process is managed centrally and collectively. It is important that the future treatment of distribution system users does not vary from network to network to avoid individual users becoming subject to incentives to connect to particular networks based only on discrepancies of the charging arrangements rather than for sound economic or technical reasons.

Invest and Connect and interaction with RPZs

The current principle for providing access to the transmission system has been referred to as an “invest and use” approach. Essentially, users are denied access to the network until any necessary reinforcement has taken place. Once access is provided a generator can expect to generate at full output at any time. SRF has argued against this approach for the transmission system and believe that the same points apply equally to the provision of access to the distribution system.

SRF believes that an access model that encourages connection of new generation would be of value. A process of “Connect and Invest” which requires network companies to connect new generation and then reinforces the network if and when required would allow the network company to take informed decisions on network reinforcement.

SRF believes that the introduction of Regional Power Zones is consistent with this thinking. However, it is not clear from the consultation whether the development of RPZs will affect the charging arrangements for other network users and we believe that this issue should be explored further in the development of new charging arrangements.

Access for intermittent generation

SRF has recently argued¹ that it would be possible to connect a greater capacity of intermittent generation at any point on the system than despatchable generation. Although there may then be some periods (for example high wind speeds at times of high system demand) where not all connected generation could be accommodated, we believe that these would be few and could be managed through generation constraints.

SRF proposes that the Use of System charge for such intermittent generation should be proportionately lower than the charge for despatchable generation to maintain the same UoS revenue.

Commodity charge

SRF has argued for an increased proportion of generation TNUoS charges to be applied on a MWh rather than a MW capacity basis. We believe that this also holds for distribution charging and would encourage active consideration of MWh charging in the review of distribution DNUoS charging.

Linking distribution to transmission

We would also like Ofgem’s work on distribution to think through more clearly how distribution can work more effectively with the transmission system. It is at this boundary that

¹ SRF response to NGC invitation of views on the treatment of intermittent generation in transmission charging - June 2005

many of the current barriers to connection of renewable generation in Scotland (mainly as distribution connected generation) now stand.

Thus we would also like to see action on issues relating to 132kV transmission charging, and the regulatory and contractual regimes that manage the boundaries between transmission and distribution.

Firstly, on 132kV related issues, it is our view that the way that 132kV is treated and use charged for in Scotland acts a barrier to attaining what we would view as a proportionate charging system.

We support the current definition of the 132kV system as transmission within Scotland. However, assuming upgrades in Scotland (in particular the Beauly-Denny upgrade) there will come a time when it is inappropriate to define 132kV as transmission. We are of the view that this redefinition should take place at the time when the proposed Beauly-Denny upgrade comes on-line. While we recognise that Ofgem cannot commit to change this, it should commit now to carry out a review at this point.

The 132kV is a priority area, because proper regulatory and contractual management of the boundary line between distribution and transmission is of critical importance in supporting connection of renewable generation to the UK network, and in effective utilisation of the network.

Currently, Ofgem is proposing to manage this boundary through the EELPS system, and the process of BEGAs and BELLAs. We remain of the view that this is a heavy handed method of managing this issue. A better arrangement that is workable over the longer term, will encourage innovation and deliver better system management, is needed.

It is our view that NGC should not contract directly with every single large embedded generator, but should agree directly with the relevant Distribution Network Operator on how individual Grid Supply Points (GSPs) connect into transmission and what Transmission Entry Capacity (TEC) each GSP is given. It will then be in the interests of the DNOs to manage flows of electricity through these GSPs, and there will be an incentive on the DNOs to maximise utilisation of their networks - for example through management of intermittent generation - or through development of constraint agreements.

Managing the TEC at individual GSPs would facilitate the DNOs to more effectively manage constrained networks, and ensure that capacity is best utilised. This will be important in distribution networks where there is significant embedded generation but relatively little demand, as in many areas of Scotland. However, the EELPS system discourages the kind of innovative use of distribution that Ofgem is seeking to encourage. Ofgem should therefore commit to undertaking a frank and open assessment of the EELPS process, with consideration of how to not hold back distribution reform because of problems at the transmission level.

Conclusions

SRF believes that future work on distribution network charging should take account of the issues raised by the introduction of intermittent generation. We propose that it is possible to connect such generation to the networks in greater volumes than despatchable generation.

We suggest that future Generation Use of System charges contain a MWh element of charges rather than concentrate on MW capacity charges.

We also recommend that consideration be given to the interaction between new charging arrangements and the development of Regional Power Zones.

Finally, we would like more focus on how to manage the contractual boundaries between distribution and transmission in a way that facilitates effective system management and connection.

I trust that you find the comments above of use in helping you deal with the issue consulted upon. If you would wish to meet or get further details on our views then please do not hesitate to get in touch.

Yours sincerely

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

Maf Smith
Chief Executive