

A Connect and Manage approach to Transmission Access

Paper for the Access Reform Options Development Group
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Introduction

In July 2004 Ofgem consulted on the initial allocation of GB transmission system access rights under BETTA. In our responses to this consultation BWEA set out its thinking on an alternative approach to the allocation of transmission access rights. This approach is intended as an alternative to the current "Invest and Connect" principles, and we have come to refer to this as a "Connect and Manage" process. This paper draws extensively on our thoughts as set out in our consultation responses. BWEA would like to submit this brief description of a "Connect and Manage" approach to Transmission access as a Straw Man for discussion by the Access Reform Options Development Group.

The 2004 Ofgem consultation raised some interesting points on an enduring access regime.

For example, in paragraph 4.15 it said:

"the allocation of access rights irrespective of the completion of the network investment that would, under the enduring arrangements be required prior to an applicant connecting to the network, could result in significant enduring transmission constraints (to the extent that the rate of growth of demand for capacity outstripped for a time the rate at which network capacity could be increased)" [Our emphasis added]

Whilst in paragraph 4.16 it said:

"there are trade-offs between short-term costs and long-term costs to consider in the context of transmission constraints. The incidence of constraint costs is one mechanism whereby signals can be given by market participants to transmission licensees as to the relative importance of different network reinforcements. Short-term costs can, therefore, deliver long-term benefits in more efficient network investment."



BWEA noted at the time that these comments are consistent with our proposed approach to the provision of access to the transmission system and reinforce the need to reopen discussions on a suitable enduring access regime.

Invest and Use

BWEA does not believe Invest and Connect is an appropriate approach to be as an enduring solution. There are a number of reasons for this.

This approach does not provide robust economic signals for the development of the transmission system in response to the needs of transmission users nor does it allow for innovative thinking in accommodating generation and demand on the system. A particular disadvantage of this approach is that it encourages transmission investment only after sufficient applications for access have been made and permits access only after investment is complete. Given that the timescales from concept to completion are many times greater for transmission than for new generation this is not facilitating competition in generation.

The other, related, issue with this approach is that new connections are only accepted when there is sufficient system capacity to provide firm access under all circumstances. BWEA believes that this has led to some confusion between the concepts of connection and access. Put simply, in most cases connection to the system is relatively straightforward. The access question is whether there is sufficient capacity in the system to allow a generator to utilise this connection to the full whilst also accommodating the remaining generation and demand.

The current approach denies connection to new generators where there is a concern over access. BWEA believes that it is possible to allow more effective use of all generation on the system (existing and new) and therefore to make more efficient use of the transmission system. This point is explored in a little more detail below.

Actions of third parties

BWEA believes that recent developments in NGC's charging methodologies have consistently supported the principle that the charges faced by an individual user should not be unduly affected by the actions of third parties. At times when demand for use of the transmission system is greatest, all network users are exposed to volatility of charges caused by the arrival/departure of generation and demand as well as by the decisions relating to investment (or lack of investment) by the transmission company.

Since transmission charges do not apply to smaller generators connected to distribution systems, BWEA considers that there may be an incentive for new generators in Scotland to apply for connection to distribution networks rather than the transmission network. This can be counter productive since the resulting reduction in net demand in Scotland has an equivalent impact on the transmission



system as transmission connections of new generation whilst leaving the existing transmission users to bear the impact of revised charges.

An Alternative approach

It is our view that this problem could be best solved by looking at the problem from a different angle. At the current time, there are a greater number of connection applications than there is connection space on the transmission grid. Work is underway to provide more grid access through grid upgrades in Scotland. However, even with this, shortage of connection is likely to remain a fact of life within Scotland for some time now.

It is worth noting that movement to a shallow connection policy, while being welcome for removing discrimination of charging, removes incentives on generators to seek to connect where grid is present, as the onus is on the System Operator to provide a connection. It is not our view that cost reflective signals are able to send behavioural signals here, because in renewables, site locations are still mainly guided by where the resource (be it wind, wave, tidal, hydro or biomass) is located.

The net result of this is that lack of access to the grid is likely to be the major constraining factor in development of new renewables projects, and achievement of Scottish and GB targets. These constraining factors lead to financial instability and increasing risk for generators. This will have the net result of increasing project cost, and thus cost to the consumer, as the price of finance goes up. The Renewables Obligation is being paid for by the consumer. It will be inequitable if such consumer payments do not lead to renewables being generated because of barriers stopping projects. Connection availability and access rights to those connections could become a major barrier if not correctly handled.

There is also concern within the generator community about how the queue for connection will be policed. While connection offers are nominally for a set time period, in practice this has traditionally not been invoked. As time passes however, there will be increasing pressure for such conditions to be invoked.

As renewables proposals are taken forward, there will develop an increasing discrepancy between those with planning consent and those with grid access. It will be impossible for the system operator to engage directly in this state of affairs in an interventionist manner. Instead, a system that apportions rights and responsibilities between generators and the system operator should be sought.

At the same time, large scale demands for connection upon NGC, as the System Operator, will make it increasingly difficult to prioritise grid connections and upgrades, and lead to increasing use of constraint payments. This leads to financial uncertainty for NGC in terms of costs of operation and likely returns of investment in grid upgrades.



The Approach Explained

It is our view that all grid applicants should be provided with a connection to the transmission system. The System Operator should undertake to provide this connection within a defined timescale (we would suggest a period of between 24 and 36 months from the connection offer).

After this time has passed, the generator should be allowed full, firm access rights. If necessary, the SO should contract with generators and/or demand to manage constraints either through the Balancing Mechanism or through balancing services contracts.

Thus, if grid is not available, the SO would have to pay constraint payments to generators. However, if the generator was not able to connect, they would have to begin making TNUoS payments based on their connection agreement. If both the grid connection and the project were ready prior to the agreed date, connection should take place and generation begin. Such a system would balance rights to connection with responsibilities to help fund connection

Putting a timescale in place would also discourage generators from seeking “speculative” connection agreements at an early project stage. Instead they would be able to focus on other issues (primarily planning), and only seek connection at an appropriate time. This would have the effect of giving NGC much clearer signals about where to prioritise its work and investment. In addition it would prevent the “freezing out” of viable developments by removing the concept of a connection queue.

NGC would be better able to assess connection agreements, and prioritise upgrades. The efficiency of investment in the transmission system could be demonstrated in terms of avoided constraint costs

It would be also be able to utilise constraint payments as a means of limiting unnecessary or more costly investment in upgrades, and it would have financial certainty that grid investment would not result in stranded assets as there would be a contracted agreement that ensures a financial return on its investment.

In Conclusion

It remains our view that the alternative approach outlined above would be a more equitable solution to managing grid access. The principles outlined here could be applied to the existing parties contracted for grid, provided that it was applied equitably to all.

It is important that the access rights system used seeks to share responsibilities properly between the SO and generators and we believe that our “Connect and Manage” proposal achieves this.

