THE BRITISH WIND ENERGY ASSOCIATION

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Dear Mark,

BWEA Response: Access Reform in Electricity Transmission

BWEA welcomes publication of the report by the Access Reform Options Development Group and the opportunity to respond to this consultation on Access Reform in Electricity Transmission.

BWEA was pleased to play an active part in the group and believes that the report demonstrates a significant improvement in the understanding of the issues surrounding transmission access by industry and stakeholders

BWEA was established in 1978 and is the representative body for companies active in the UK wind energy market. Its membership has grown rapidly in recent years and now consists of over 300 companies including all grid-connected wind energy and every company with a lease to develop offshore.

This response has been prepared on behalf of the wind industry and BWEA members although individual member companies with wider interests may hold a different position on some issues.

Any questions raised by this response may be addressed to Richard Ford, Head of Grid and Technical affairs at the British Wind Energy Association at richard@bwea.com

Summary

- **reform of the existing arrangements is essential**
- **this should be delivered as a defined project in the current price control**
- **the new arrangements should follow a "connect and manage" philosophy**
- **full access rights should be provided to applicants within 3 years of application**
- **applicants should provide financial guarantees for local reinforcements necessary to connect the generation to the main interconnected transmission system (MITS)**
- **applicants should not provide financial guarantees for reinforcements to the MITS.**

Introduction

BWEA believes that the existing arrangements for provision of access to the transmission system are no longer serving the purposes for which they were designed and that they are now hindering competition in generation. BWEA does not believe that a robust and enduring regime can be delivered by minor improvements to the existing arrangements – even though such changes may be helpful in the short period between now and the commencement of the next transmission price control in April 2007.

BWEA believes that reform of the existing arrangements is essential and that this should be delivered as a defined project in the current price control.

The "Connect and Manage" philosophy

BWEA continues to support the philosophy of connect and manage as fundamental to the establishment of a robust and enduring system of providing access to the transmission network. Whilst there are many ways in which "connect and manage" can be delivered, the key defining element is that there should be no link between individual generation projects and wider system reinforcements.

Instead there should be a focus on the transmission works necessary to connect the new generation project to the main interconnected system. Where these "local" works are for the sole use of the generator applying for access, or indeed shared works in a cluster, the existing arrangements for Final Sums Securities may continue to be appropriate.

Decisions on whether wider system reinforcements are required or indeed whether alternative operational strategies can defer or replace the need for such reinforcement are best taken by the system operator. Users of the network and consumers generally will be best served if the system operator acts to minimise the total costs of transmission (both capital and operational). BWEA would support

the introduction of a combined incentive scheme to align the interests of the system operator and consumers.

BWEA suggests that where new generation is connected to the system, at levels that may not be accommodated under the existing arrangements; the additional Use of system income from the new generation could be set against any potential increases in system operation costs.

The difference between local connection and wider reinforcements

BWEA views the "connect" and the "manage" processes as being entirely distinct. In practice this may lead to two separate application processes for new generation.

The "connect" process would involve identification of the specific local works necessary to connect the proposed generation to the transmission network. The first application therefore, is for a physical connection.

These new connection assets are, in the main, site specific and it is appropriate for these to be planned in conjunction with the generation development. In practice local authorities will seek to understand the local consequences of new generation projects during the planning process and indeed, may determine section 37 consents for the local connection alongside the section 36 consenting process for the generation.
Decisions on whether to proceed with construction of the generation *together with* the associated local transmission works will be taken once the planning process is complete.

This happens already but, in all but the simplest cases, the connection date of new generation is determined not by the optimum timetable for constructing generation and the local connection, but by the timetable for wider system reinforcements. As a result, new generation projects that could be built and generating within months are refused connection for years.

Connecting generation without granting it permission to use the system is pointless. The "manage" process for granting access, which is explored in more detail below, provides for new generation to be guaranteed access rights to use the network. The second application therefore is for contractual rights of access. BWEA suggests that these rights could be granted within 36 months of an application for access. It could be a precondition that the physical connection is complete before access rights are granted.

The current arrangements magnify planning risks

BWEA understands the desire of the system operator to have good information on the status and likelihood of connection of new generation projects. As noted above, we don't believe the current arrangements provide this. A major drawback of the current arrangements is the lead time from application to grid connection which drives prospective generators to apply for access to the grid before gaining planning consents – and frequently before having even made the planning application. Since a proportion of projects will not survive the planning process the system operator knows that a number of the projects seeking connection will

ultimately withdraw their applications although it will not be in a position to identify which.

This can be addressed by guaranteeing access to the grid in a predefined timescale. This should be less than the period after which planning offers expire (currently 5 years). If, for example, prospective generators were guaranteed connection in 36 months, they would be able to apply for grid access after gaining of planning consents. This would improve the information available to the system operator as it would have increased confidence that applications would progress to connection.

A consequential benefit of such an approach is that much of the existing queue for applications in Scotland, some 12GW at last count, could withdraw their grid applications confident in the knowledge that they could reapply once the planning process was complete. This would allow the system operator to concentrate on providing access to those projects that are currently in a position to proceed with connection.

Managing risk

The current arrangements require applicants for transmission access to demonstrate a financial commitment, in the form of final sums securities. This removes from other system users the risk of exposure to costs if the planned generation project does not subsequently connect. However in so doing, it increases the financial risk on new generation projects to an extent where it is possible for otherwise sound projects to withdraw their applications. This is a barrier to entry.

There are benefits to all system users in the connection of new generation to the network. BWEA agrees with Ofgem that it is appropriate to adjust the risk burden across all (potential and existing) users of the system. This would be in keeping with Ofgem's statutory duty to protect consumers by facilitating competition in generation and supply.

BWEA further feels that the overall level of risk can be reduced by other means. In particular, by avoiding the need to apply for network access before the planning process is complete, as described above.

Commitment by new generation

As noted above, BWEA believes that new generation projects can demonstrate commitment by providing security for the costs of local network reinforcements.

In addition, *where a new generator has a guaranteed date for the commencement of full access rights*, BWEA would support a commitment for such generators to pay TNUoS charges for (say) 5 years from the date at which those access rights take effect.

This might have little impact upon generation projects in areas with low TNUoS charges. It could be a material commitment from those new generators in areas with higher TNUoS charges where one might expect the granting of new access

rights to provide the biggest challenge to the system operator. It is precisely in these areas that the system operator will most welcome generator commitment.

BWEA believes that these measures should provide sufficient confirmation that individual projects are committed to connection to the network and minimise the risks of stranded network investment.

Enduring commitment by generators

BWEA notes the desire of the system operator to receive accurate and timely information on the future closure decisions of generation connected to the system. Such information is important if the system operator is to manage the network efficiently. However, BWEA does not believe that a rolling commitment to pay future TNUoS charges will improve the accuracy of the available information on future closure decisions and so we do not support this potential element of an access regime.

As noted below, in the section on reallocation of existing capacity, it may be appropriate in some circumstances for National Grid to "buy back" existing access rights from generators that are near to the end of their lives. Where this is appropriate, the resulting discussions between the National Grid and the generators concerned may become a useful source of accurate information on future closure decisions of generation. In addition, this would focus on the generation where the information is most relevant.

Provision of limited access rights after connection

As noted above, BWEA believes that full access rights should be available within a predefined timescale. As such, the provision of limited rights has limited relevance.

It is possible, however, that individual projects may be in a position to physically connect to the grid in shorter timescales. This could arise for example where the local connection arrangements are particularly straightforward or where existing generation is returning from mothballing. In these circumstances it would be counter productive to refuse access on principle.

As noted in the ARODG report, there are existing products available (Limited Duration TEC and Short Term TEC) and BWEA would expect further products to be developed if and when a need for them is identified.

BWEA would support the provision of limited access rights wherever these can be accommodated by the system operator.

In keeping with the "connect and manage" philosophy, these rights should not be restricted by the physical capacity of the network. Instead the rights should be allocated where they can be accommodated by the system operator without incurring unacceptable increases in system costs.

Reallocation of existing capacity

BWEA does not support the development of mechanisms to reallocate existing capacity. Apart from the issues raised in the ARODG report of complexity and cost, the concept of apportioning fixed volumes of access rights is contrary to the "connect and manage" philosophy which provides full access rights to all users that request them.

The existing arrangements - where it is open to parties to approach National Grid to explore the basis on which access rights might be exchanged on a case-by-case basis – may still have a place. Use of such arrangements might be expected to be small given the ability of generators to gain full access rights within 3 years.

However National Grid may find in managing the system that the most cost effective option is to "buy back" access rights from generation that is reaching the end of its life. The arrangements should not preclude this.

Other impacts of "connect and manage"

BWEA notes that the adoption of a "connect and manage" philosophy may have wider implications for other market mechanisms.

BWEA believes the attributes of its proposals are that it facilitates the timely connection of new generation whilst limiting the overall costs to network users and ultimately consumers.

In managing total costs to consumers, BWEA accepts that individual components of total costs may be higher than they would otherwise have been. For example, constraint costs may rise to a level than would have been the case under the current arrangements. On the other hand the annuitised charges for new transmission investment may be lower than otherwise would have been the case.

BWEA believes that it is appropriate to concentrate on the total cost to consumers and to devise incentive schemes for the system operator under the price control that align the interests of the system operator with consumers.

As a result, BWEA believes that such changes should be undertaken as a holistic project under the auspices of the current price control. Since this is, in effect, a departure from the current regulatory mechanisms for transmission licensees it will require the development of new regulatory controls. We would expect these controls to address other market mechanisms as appropriate.

Areas that may need to be kept under review are the pricing of Balancing Services, and the development of the Transmission Charging Methodology. For example, as already mentioned above, BWEA suggests that where new generation is connected to the system, at levels that may not be accommodated under the existing arrangements, the additional Use of system income from the new generation could be set against any potential increases in system operation costs.

Illustrative Options

BWEA notes that the potential access regimes identified in the ARODG report are illustrative options only. None of them captures all of the elements discussed in this response but BWEA believes that variant 2 is the variant that closest matches the "connect and manage" philosophy as discussed above.

BWEA suggests the following variant as an enduring arrangement.

- **'Local FSL**'
  the user is required to post security in line with the (periodically updated) profile of estimated costs of the local works only.

- **'TEC in 3 years and a five year charging commitment'**.
  the new user would be allocated TEC not more than three years after he signed a contract committing him to pay for TEC (at the prevailing level of charges, and subject to the completion of local works) for a period not less the five years.

- **'Amended Status quo' for restricted rights**
  parties would have the right to apply for the existing range of products other than TEC in advance of being allocated TEC, and further products might be introduced. Allocation of these rights would depend on the ability of the system operator to continue managing the system without unacceptable increases in operating costs.

- **Ad hoc facilitated trading**
  the current arrangements would continue where it is open to parties to approach National Grid to explore the basis on which access rights might be exchanged on a case-by-case basis. Use of such arrangements might be expected to be small given the ability of generators to gain full access rights within 3 years.