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BWEA



Delivering the UK's wind, wave and tidal energy

Greencoast House
Francis Street
London, SW1P 1DH, UK

T +44 (0)20 7901 3000
F +44 (0)20 7901 3001
info@bwea.com
www.bwea.com

Dena Barasi,
Transmission and Governance
Ofgem

21st January 2010

Dear Dena,

**Locational BSUoS Charging Methodology GB-ECM-18,
BWEA Response**

BWEA was established in 1978 and is the representative body for companies active in the UK wind, wave and tidal energy market. Its membership has grown rapidly over recent years and is now approaching 500 companies, representing the vast majority of connected capacity. The UK has a rich variety of renewable energy resources and the largest wind wave and tidal resources in Europe. These resources must be exploited to meet UK, European and Global needs to reduce greenhouse gas emissions and avert the runaway effects of global temperature rise.

Our response is follows below.

Overview

This proposal is one of a number of consultations in charging at present. It highlights a **concerning degree of inconsistency and discrimination** which points strongly to a need to completely overhaul the regulation of charging. For example we note:

- This proposal proposes to allocate LBSUOS 100% to transmission contracted generation and none to demand or to Distributed Generation.
- The proposal by DECC for TAR proposes to Socialise constraint costs.
- The consultation GB ECM 19 proposed to allocate the extra £140m per annum spinning reserve costs caused by new larger nuclear power stations as follows:
 - 50% to demand and 50% to the new generation;
 - To 6 power stations – even when only one is built;
 - Fixed in advance over a number of years ahead.
- Consultation GB ECM 23 proposes to allocate TNUOS to Distribution connected Generation.

BWEA notes that constraint costs are necessary for an efficient system and demonstrate that there is an economic value of reinforcements. Economic theory can demonstrate the optimum balance between constraint costs and transmission investment. However, no-one can predict the speed at which generation is developed and connected, nor the time taken to permit and construct reinforcements. Therefore the theoretical cost minimum will rarely be achieved. If approved transmission development is delivered “early”, the extra costs of that early investment will be met by all demand and generation customers. If it is delivered “late” this proposal suggests that the costs should be borne by some generators. This is clearly imbalanced and produces a dangerous regulatory incentive to err on the side of delaying transmission reinforcements. This risk was highlighted in the DTI RETS Revisited Report November 2005.

Our comments on Ofgem’s questions are set out below.

CHAPTER: Three

→ Question 1. Do respondents have any comments on NGET's analysis?

The analysis is clearly a major and in-depth assessment. This is one of an exceptionally large number of consultations which have been put before industry in the past twelve months. Even the large vertically integrated market participants are challenged to respond to these, and for smaller developers also represented by the BWEA, to whom these proposals may make a substantial difference, it is an impossible task. At BWEA itself we must prioritise our work and resources, and it is unreasonable to ask us to review in detail and respond on a report of the complexity we have here, against a background of uncertainty where these proposals might, if implemented, only be in existence for short period.

→ Question 2. Do respondents wish to present any additional quantitative analysis that they consider to be relevant to assessing the proposal?

See Question 1.

→ Question 3. Do respondents consider that there are any aspects of the proposal that have not been fully assessed?

The analysis is focussed on the Cheviot B6 boundary, analysis of the probable locations of future non-compliant boundaries under both Interim Connect and Manage and TAR, and assessments of the impacts of LBSUOS at these other boundaries, is needed.

The practical operation of LBSUoS, with interactions across multiple non-compliant boundaries, needs to be assessed.

→ Question 4. Do respondents consider that the key features of the proposal strike an appropriate balance between cost reflectivity, transparency, complexity and stability?

Cost reflectivity: It is cost reflective, however, costs will also fall on those who are not responsible for creating them, e.g. existing generators behind a complaint boundary which becomes non-compliant (or remains non-compliant after reinforcement) due reinforcement delays, due to the location of other generators or due to changes in demand.

Transparency: Not very transparent as prices will not be known in advance, making it difficult for market participants to take appropriate actions.

Complexity: This is very complex matter, primarily as it would require many smaller Generators to predict LBSUoS, where they do not have such expertise. The operation with other non compliant boundaries would further increase complexity.

Stability: The proposal is inherently unstable due to the proposal to extend it to other non-compliant boundaries, the creation and removal of non compliant boundaries, the uncertain duration, the inevitable pressure to extend to embedded generation in future and the interaction with TNUoS (which raised a number of concerns in the first consultation) and the interaction with TAR. See also overview.

→ Question 5. Do respondents consider that this modification promotes more effective competition? Conversely, do respondents wish to provide further detail of any discrimination concerns?

As noted in the overview we are concerned that this and other contradictory proposals in the charging area will adversely impact on investment, particularly by smaller independent generators and new entrants, which will not promote effective competition.

Smaller players do not have the systems and market knowledge to make complex predictions of LBSUOS and related financial risks and therefore will be discriminated against.

→ Question 6. Do respondents consider that the proposal complements the changing nature of the transmission network and assists the development of an economic and efficient transmission system?

BWEA supports cost reflectivity in charging; however there are serious concerns stated in the overview that there is no consistent approach in changes to charging.

→ Question 7. Do respondents consider that the different methodologies used in the proposal are appropriate?

We have not engaged in the depth of analysis necessary to answer this question.

CHAPTER: Four

→ Question 1. Do respondents wish to present any additional quantitative or qualitative analysis that they consider would be relevant to assessing this proposal?

For the reasons stated in the overview we have not dedicated resources to making our own analysis in this case.

→ Question 2. Do respondents consider that there are any aspects of the proposal that have not been fully assessed against the factors set out in this chapter?

See Question 1.

→ Question 3. Do respondents consider that there is discrimination between transmission system users as a result of this proposal?

The proposals do not involve demand and this is a regressive step in an otherwise largely participative electricity market.

A non-compliant boundary can also be caused by a reduction in demand behind a boundary and therefore demand should be able to participate in resolving the problem.

Demand involvement is particularly important to incentivise and involve DSM and storage in absorbing surplus generation and responding to lower market prices, which will increase with the growing capacity of variable renewable generation. It is both contradictory, and an inefficient investment, to be implementing Smart Metering and then excluding the players with these meters from participating in reducing costs.

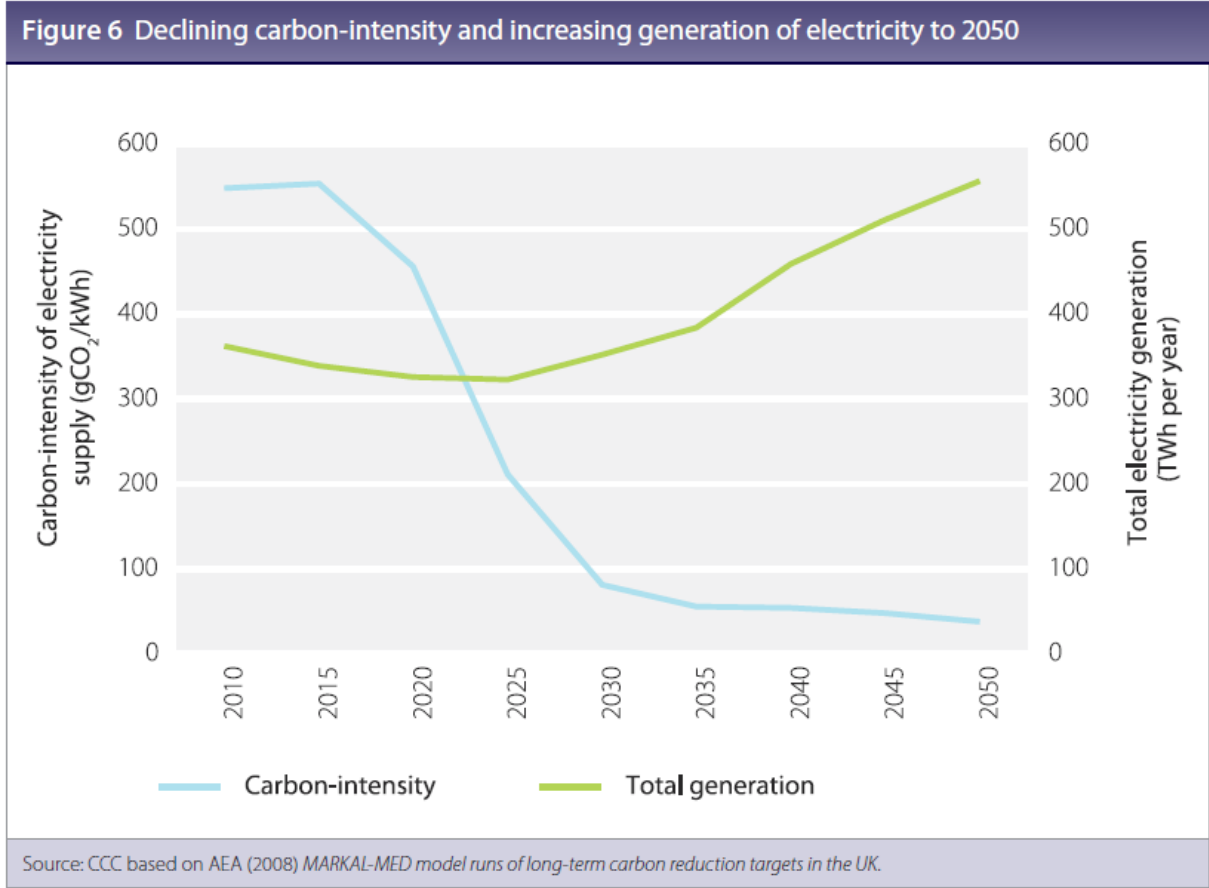
The current exemption for embedded generation is discriminatory, especially because of the different transmission voltages in Scotland and offshore. The definition of transmission is not consistent and therefore there is arbitrary discrimination. I.e. if we consider two hypothetical, identical projects sitting side by side, but with one connected to 132kV in Scotland and one connected to 132kV in England, one will be immediately subject to TNUOS and not the other. Therefore this proposal is further exacerbating this arbitrary distinction between market participants.

→ Question 4. We welcome further views on whether the proposal could have an adverse impact on security of supply.

If there is a shortage of generation capacity at some stage in the future, which leads to a loss of supply, any enquiry would look back and ask the question – has this proposal impacted on delivery and investment in capacity? The proposed charges would reward those who can generate in the strongest areas of the transmission system and close to demand i.e. the centre of southern England where neither the land, the planning permission, nor viable renewable resources are available. Therefore an enquiry would probably conclude that there was an adverse impact on security of supply.

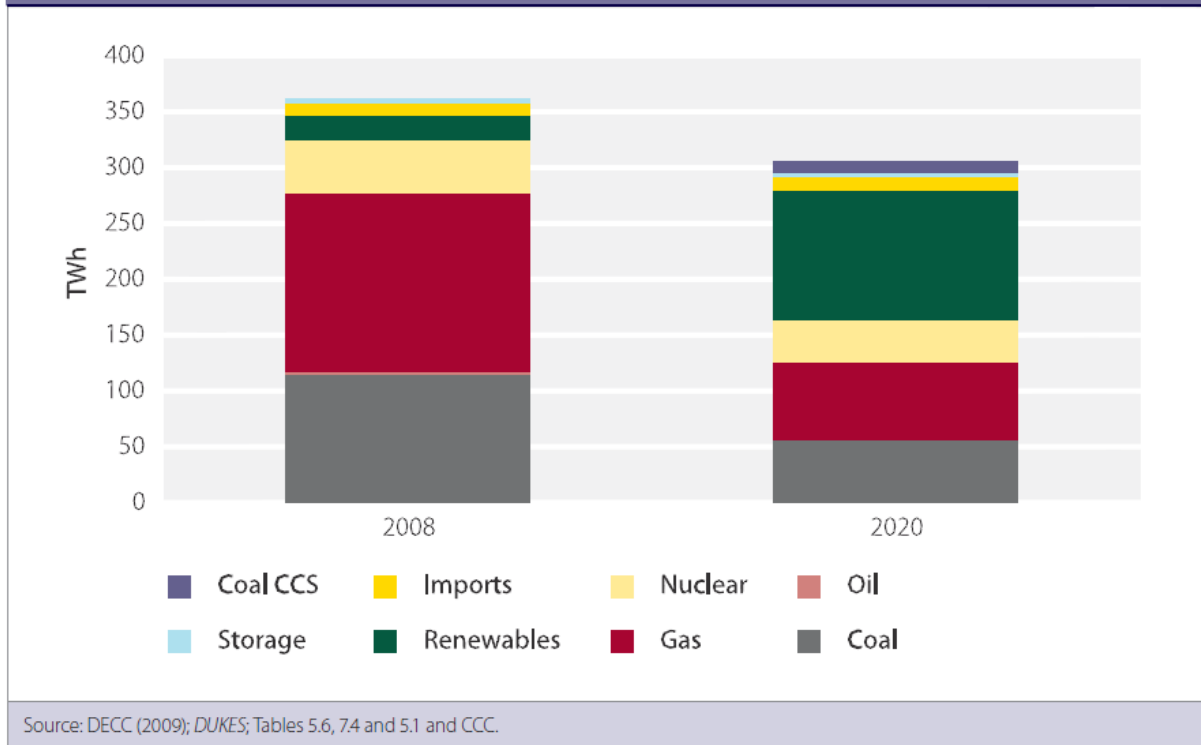
→ Question 5. We welcome further views on whether the proposal could have an adverse impact on sustainability in particular the transition to a low carbon economy.

The Committee on Climate Change has set out a requirement to decarbonise the electricity sector from its current levels of over 500g/kWh to less than 100g/kWh in 2030 after which electricity demand is expected to increase and lower carbon intensity still further. (See figure 6 from the Progress Report to Parliament, Committee on Climate Change, 12 October 2009).



To achieve these targets will require major investments in some combination of renewables, carbon capture storage and/or nuclear. Figure 7 below shows the required growth in renewable generation which provides virtually all of the carbon savings by 2020.

Figure 7 Scenario for generation mix in 2020 compared to actual generation mix in 2008



The UK has lead Europe in developing a market based system to support renewables (in the form of the Renewables Obligation) reflecting both the true costs of carbon and that renewables are new, competing with well established technologies. In Europe most of the support is by use of Feed in Tariffs (FIT) rather than market based mechanisms. Even in the UK some of the shortcomings of the market based system have been recognised as is evidenced the introduction of Feed in Tariffs for smaller renewables generators. As part of the European Union, there is pressure mounting for common European approaches to markets and regulation in the electricity sector. This common European approach will be accelerated by increasing interconnection between GB, ROI and the rest of Europe. However, the UK's example of a market approach is jeopardised by this and other proposals which inconsistent and constantly tinkering with that market – see overview.

The UK support system for renewables has been criticised as being expensive compared to a FIT. One of the reasons for these higher costs is the increased risk in a market based system. The current risks include ROC price risk, electricity market price risk, and TNUoS / GDUoS risk as well as BSUoS. These risks are compounded for more highly capital intensive projects with zero fuel costs i.e. renewables. The result of higher risks is a higher cost of capital, which adversely impact renewables. The BWEA is concerned that any benefits of cost reflectivity in LBSUoS, as assessed in National Grid's work, will be greatly exceeded by the impact on consumers of the increased cost of electricity due to cost of capital and delays in the delivery of low carbon generation and renewables.

So, by introducing another hard to quantify variable (in the form of LBSUoS), and further increasing the volatility of TNUoS, the BWEA is concerned that the delivery and cost of renewables will be severely affected. The knock-on effects on UK plc, particularly in terms of jobs and attracting inward investment (to deliver the huge offshore wind program with export potential to Europe) far outweigh the short term benefits of this

proposal. In addition it will put further pressure on the UK and Europe to move away from market based support mechanisms and move toward FIT systems.

→ Question 6. Do respondents wish to present any further analysis on the wider implications of the benefit that may ultimately be expected to be passed through to consumers?

For reasons explained in the overview, we have not dedicated the resources to undertake such an analysis; however the cost to consumers of delivering the low carbon budgets will very probably be increased by this measure as discussed in Q5 above.

→ Question 7. Do respondents have any views on the interaction of NGET's charging proposal with TAR as set out in this chapter?

DECC have just published (14th January 2010) their TAR proposals which advocate a Connect and Manage Socialised Cost model. This LBSUOS proposal appears to be totally contrary to the DECC proposals.

BWEA would welcome the opportunity to discuss any aspect of this response, please don't hesitate to contact me.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Guy Nicholson', written in a cursive style.

Guy Nicholson CEng MIET MEI Head of Grid for BWEA