

Ms Dena Barasi,
Senior Manager Transmission Policy and Charging
Ofgem
9 Millbank
London
SW1P 3GE

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Dear Dena,

CONSULTATION RESPONSE
GB ECM 18 Locational BSUoS Impact Assessment

Scottish Renewables is the trade body for the renewable energy industry in Scotland. We represent nearly 280 members all of whom want to see renewables a success in Scotland. You can find out more by visiting our website www.scottishrenewables.com.

Many thanks for the opportunity to comment on your impact assessment for GB ECM 18, Locational BSUoS. Scottish Renewables has already made extensive representations on Locational BSUoS to yourselves, National Grid and DECC. Whilst we have found the impact assessment informative our views remain unchanged.

Furthermore, and crucially, Scottish Renewables feels that DECC's decision to mandate socialised constraint costs, announced on 14 January, dramatically alters the context of this consultation and necessitates a veto from Ofgem on Locational BSUoS. Ofgem has recently been adjusting its priorities in the light of new sustainable development duties, and we note that DECC issued new social and environmental guidance for Ofgem on 21 January this year. Both of these developments enhance Ofgem's role in facilitating government targets for renewable energy. Ofgem also needs to reduce as far as possible 'red tape' and regulatory burden, and play its part in creating a stable market environment. In all of these respects any mis-alignment between DECC and Ofgem are quite damaging.

Scottish Renewables's detailed comments follow:

Chapter 3 – Assessments against license objectives and NGETs analysis

We welcome National Grid's detailed analysis which you have largely reproduced for your impact assessment. Scottish Renewables also notes Redpoints analysis published by DECC which appears to back up National Grid's findings. Both sets of analysis are a helpful contribution and assist parties to understand the underlying rationale of Locational BSUoS, which is to alter despatch decisions in light of the cost implications.

However we feel that the fundamental and insurmountable problem is that it relies on generators showing a behavioural response to the price signals in line with their pure underlying economics. An absolute fundamental pre-requisite to this behavioural response is being able to understand



and predict the costs that Locational BSUoS will give rise to. As you know, the cost is only known after the event, and the cost is a function of economic decisions that are outwith the control or knowledge of the majority of generators.

Ofgem clearly believes that generators connecting ahead of system reinforcement are the cause of the cost, and hence they should pay that cost. Scottish Renewables accepts that extra generation behind a derogated boundary gives rise to a higher chance of congestion, although the same can be said of poor outage planning, unplanned outages and delayed upgrades.

Scottish Renewables does not accept that the SQSS currently sets the right economic level of constraint versus reinforcement. Previous work by National Grid suggested that there is still some benefit to be gained in economic terms – when the cost of carbon is factored in – to connecting more than the SQSS currently allows.

Furthermore Scottish Renewables does not accept that generation connecting ahead of reinforcement gives rise to the frequency, scale, volatility or unpredictability of the cost, all of which Locational BSUoS exposes them to. Scottish Renewables also notes that renewables generation has been encouraged to connect by government targets, an energy market obligation and by favourable pre-BETTA connection terms.

Ofgem asks for “*respondents views as to whether we can expect parties to reach efficient decisions in light of the information provided ex-ante together with the cost-reflective charge received ex-post.*” Scottish Renewables believes quite strongly that the vast majority of generators will find it exceptionally difficult, if not impossible, to predict the cost of Locational BSUoS, and that this will seriously compromise project financability. Generators will need to accurately predict both the cost and the frequency of constraints. National Grid itself has not been able to do this!

Scottish Renewables notes the ex ante information available – past bid prices and actions – but we note this does not by virtue of its existence help predictability. If it were predictable NGET would be better at predicting constraint costs! Furthermore the “BM Reports” website, where this information is held, is completely impenetrable to all but the initiated few.

We feel that this feature of the proposal should make it unacceptable. We are disappointed that these points are not given greater weight in the impact assessment, despite it being the most important impact for renewables generators.

NGET’s analysis does not consider the impact that unpredictable and volatile costs will have on plant economics – both for those already generating and those making investment decisions. Extra risk will at best raise the cost of capital and at worst prevent a project from proceeding. As well as compromising government targets, discouraging new entry will have a negative impact on competition. Existing generators will also need to recover costs if they cannot avoid the cost, and this will ultimately be paid for by the consumer.

Finally Scottish Renewables is unhappy with Ofgem’s willingness to accept major and unpredictable changes to Scottish tariffs whilst at the same time protecting tariffs south of the Cheviot from the effect of the TNUoS re-adjustment. In other areas of the proposal Ofgem argues that all users should be treated the same. But the totality of Ofgem’s arguments are: that all generators behind a derogated boundary should see extra costs for cost-reflectivity reasons despite the practical and economic arguments against this; but that users the other side of the



boundary should not see extra costs for cost-reflectivity reasons because of the practical and economic arguments for this.

Chapter 4 – assessment against the Authority’s wider duties

Impact on consumers

Locational BSUoS is unlikely to have any beneficial impact on consumer bills and could even have a negative impact. This is because:

- DECC is introducing socialised costs in June 2010 and hence Locational BSUoS will last for just 2 months.
- The cost is not avoided if there is no adequate behavioural response.
- If extra cost and uncertainty will increase the cost of meeting the Renewables Obligation, for which consumers pay.

Discrimination issues

As noted above we are concerned about the differential treatment, north and south of the Cheviot boundary, of the:

- TNUoS re-calculation, and
- the different weight given to the acceptability of risk and uncertainty

We are concerned that Ofgem considers it acceptable for generation to be discouraged by risk and uncertainty behind a derogated boundary, but not the other side. We feel that Ofgem has not fully assimilated the long-term implications of its policy of favouring generation close to centres of demand when low carbon energy sources tend to be further away.

These concerns are exacerbated by the statement in para 4.26 that “*Increased predictability of BSUoS charges and potentially reduced constraint costs could reduce barriers to entry for generators with higher efficiency overall (including costs of transmission) and hence support security and reliability.*” Ofgem is presumably talking here about the lower and more predictable costs for those that are not exposed to locational BSUoS. Elsewhere in the consultation Ofgem acknowledges that Locational BSUoS will increase costs, and create issues of charge volatility and unpredictability for those exposed to Locational BSUoS.

Impact on security of supply

The nub of the question is whether security of supply will be adversely affected by a loss of revenue for usurped generators from the energy market. If these generators are not to close, they will need to recover their costs elsewhere. At present the market for system services is rather short-term and hence this may not offer a realistic alternative. Scottish Renewables would urge consideration of longer-term remuneration for system services. This has been discussed by National Grid but could be accelerated to address these concerns.

In our response to DECC we also emphasised the benefits of negotiating long-term system service contracts in dampening the volatility and increasing the predictability of costs. This may also open out opportunities for new investment in flexible plant or novel storage technologies, where there will be a need for longer-term signals to make the initial up-front investment.



Impact on renewables

Ofgem invites “parties to provide us with information and evidence regarding the effect of GB ECM-18 on the viability of renewable generation in constrained areas. Respondents may request that this information is kept confidential. We would welcome views on these issues.”

Ofgem has in the past asked us for evidence that certain charges impact upon economic viability. In the case of high TNUoS in peripheral areas we provided this evidence, and the response has been – from National Grid at least – that this is an acceptable consequence of the charging regime.

Scottish Renewables would be happy to seek views from financiers and others on whether Locational BSUoS would impact on their investment decisions – we suspect many have already told you it would have a negative impact. It would be helpful on this occasion for Ofgem to spell out what difference this kind of evidence would make to its position.

Impact on energy savings

Ofgem states that: “Our initial view is that we do not believe that GB ECM-18 may reduce the volume of electricity generated north of the Cheviot boundary. To the extent that the proposal may reduce the incidence of constraints and the associated level of flows across the system, it may potentially lead to a decrease in transmission losses. Our analysis does not quantify the impact on transmission losses.” We cannot quite follow this rationale and would appreciate some more background to this reasoning.

Interaction with TAR

Scottish Renewables believes that DECC's decision to socialise constraint costs is of over-riding importance.

If you have any queries regarding the response please do not hesitate to contact Scottish Renewables.

Yours faithfully,

Calum McCallum
Director of Business Development
Scottish Renewables

