

David Haldearn
Director, Scotland and Europe
Ofgem
9 Millbank
London
SW1P 3GE

Renewable Energy House
1 Aztec Row, Berners Road
London, N1 0PW, UK

T 020 7689 1960
F 020 7689 1969

Friday 6 August 2004

Dear David,

BWEA Reponse: The initial allocation of GB transmission system access rights under BETTA

Thank you for the opportunity to respond to this consultation on access rights. This response has been put together in cooperation with the Scottish Renewables Forum.

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 330 companies including all grid-connected wind energy and every company with a lease to develop offshore.

Wind energy is widely recognized as an abundant energy resource indigenous to the UK. Most commentators accept that wind is likely to represent at the very least half of the Government's '10% by 2010' target because of the maturity and low cost of wind powered generation relative to other forms of renewable electricity generation technologies. Continued growth of installed wind energy generation capacity beyond this 10% 2010 baseline is almost guaranteed.

Scope of consultation

BWEA notes that the scope of this consultation is restricted to the specific transitional issue of how rights associated with the prevailing transmission systems pre-BETTA are translated into rights to use the GB transmission system at BETTA Go Live. We provide comments on this specific issue below.

However, important as this issue is, it is also necessary to develop the debate on the wider issue of how access to the wider transmission system should be managed from BETTA Go Live. We set out an alternative approach to Transmission Access in our response to the earlier NGC consultation on GB access rights. We understand that



responses to this consultation were forwarded to you by NGC; a copy of our response is also available on both the NGC and BWEA websites.

This current consultation document also touches on a number of issues relating to an enduring approach to access to the GB transmission system and the BWEA welcomes this as a sign that it is necessary to have regard to possible enduring access arrangements when considering the transitional arrangements associated with the introduction of BETTA. A restatement of our suggested approach to allocation of transmission access rights is set out in this response.

BWEA believes that the provision of access to the transmission system is an issue that should be addressed as a priority. With the introduction of BETTA now only a matter of months away, it is essential that prospective future users of the transmission system should understand the approach that will be followed in providing access to the GB transmission system. Users and potential users of the transmission system should be involved in this. We would encourage, and welcome the opportunity to participate in, such a debate.

The Ofgem proposals

The BWEA welcomes the proposal to implement a variant of, what was in the NGC consultation, Option 2. BWEA also welcomes the decision to set a cut-off date for applications after which these transitional arrangements will cease to apply at 1 January 2005. BWEA agrees that it would not have been appropriate to set a retrospective cut-off date and is encouraged to note that the proposed cut-off date is close to the proposed date for BETTA Go Live. However, it remains unclear how the transmission licensees will manage applications received after the cut-off date but before BETTA Go Live.

As set out below, BWEA continues to believe that applicants should be offered full access rights without conditions relating to wider network investment.

Proposed licence drafting

The proposed drafting (particularly clause 7) requires NGC to treat applicants in Scotland differently from applicants in England and Wales.

In England and Wales, where an application has been submitted before the transition period (assumed to start on 1 September) an offer must be provided within three months of the first day of the transition period (i.e. 1 December). Where an application is made between 1 September and 1 January 2005, the offer must be made within three months of receipt.

However, in Scotland, where an application has been submitted at any time before 1 January 2005 (the last date on which applications may be made to which this condition applies) the Offer must be provided by 1 April 2005.

It is not clear why there should be this difference in treatment between applicants and it is not appropriate that a prospective generator that may have already lodged an application in Scotland should be required to wait further 8 months for an offer to be made.

BWEA suggests that the proposed treatment of applications in England and Wales should be applied to all applicants wherever they are located.

In addition, the Scottish licensees will be making (and in many cases may already have made) offers for connection to the Scottish transmission networks. BWEA therefore proposes that the licence condition requires that the NGC offer should substantially reflect the offers already received from the Scottish transmission licensees.

Invest and Use

BWEA notes that the four options provided in the earlier NGC consultation invoke the principle of "invest and use". Irrespective of whether this may have been a feature of previous consideration of applications for use of the transmission system, BWEA does not believe it is an appropriate approach to be adopted during the implementation of BETTA or 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 of the options identified in the earlier NGC consultation result in 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 will not apply to smaller generators connected to distribution systems, BWEA considers that the approach being considered may act to encourage new generators in Scotland to apply for connection to distribution networks rather than the transmission network. This could be counter productive since the resulting reduction in net demand in Scotland would have 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 (which will be NGC from April 2005) to provide a connection. It is not our view that cost reflective signals will be 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.

Also, such an approach would be workable now and once BETTA is operational. It is important that the access rights system used recognises this and seeks to share responsibilities properly between the SO and generators.

BWEA is encouraged to note that this consultation document raises similar points. For example, in paragraph 4.15 you note that:

*"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 you note that:

"there are trade-offs between short-term costs and longterm 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 believes 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.

I hope that you have found these comments useful. We would welcome being involved in work to develop the Access Rights and would be happy to discuss our thoughts further.

If you have any questions please feel free to contact me at any time.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Ford', with a long, sweeping horizontal stroke extending to the right.

Richard Ford
Head of Grid and Technical Affairs
British Wind Energy Association