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Dear Richard,

BWEA Response: GB Transmission Charging – Final Methodologies Consultation

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.

BWEA welcomes the opportunity to respond to this consultation on GB transmission charges. This response has been prepared in collaboration with Scottish Renewables.

BWEA notes that much of the detail of the proposed methodologies remain as set out in the previous consultation. As set out in our response to the previous consultation, BWEA continues to believe that these proposals do not yet provide the appropriate balance between the interests of users of the transmission system and NGC's compliance with its licence objectives. Of the two scenarios outlined in the consultation document, BWEA believes that Scenario A is preferable to Scenario B and that Scenario A better meets the relevant objectives. However, BWEA continues to believe that the GB Use of System charging methodology should incorporate the following features:



- **A single expansion factor;**
- **A non-locational security factor;**
- **A wider tolerance band to be used in the setting of zonal boundaries;**
and
- **A G/D split of charges of 0/100**

NGC recommendation of final methodologies

BWEA notes that NGC have asked Ofgem for guidance on the appropriateness of the two scenarios proposed in the consultation but that such guidance has been denied. We understand NGC's position that it is appropriate for NGC to recommend a single methodology to Ofgem/DTI for approval. We note NGC's intent to hold the alternative scenario in reserve in case Ofgem is unable to approve the recommended scenario. However it is unclear to us how, or if, Ofgem will manage the approval process. We are concerned that Ofgem/DTI may ultimately approve the recommended methodology even if (as a package) an alternative methodology would have better met the relevant objectives. We raised this question at the recent meeting of the GB Developmental Transmission Charges Methodology Forum and understand that Ofgem may be able to provide guidance on their approach to their decision. However, such guidance is not yet available at the time of writing this response.

As set out elsewhere in this response, BWEA would prefer the recommended methodology to differ in a number of respects from the two scenarios presented. However, of the two methodologies currently under consideration, BWEA believe that Scenario A is a significant improvement over Scenario B and, should a revised scenario not be available, BWEA would urge NGC to recommend Scenario A and retain Scenario B as the alternative.

Extension of the E+W charging arrangements

BWEA notes that NGC proposes to base the GB arrangements substantially on the existing arrangements in England and Wales unless there are differences in the characteristics between the Scottish and E+W systems. Your analysis concludes that the nature of the two systems is different (specifically that the Scottish system has more radial circuits and a large proportion of 132kV assets). However, your further analysis concludes that since the England and Wales network already contains both radial circuits and circuits operating at 132kV, there is no reason why the Existing methodology cannot be applied on a GB basis.

BWEA disagrees with this analysis. The point is not that these features do not exist in England and Wales but that they exist in Scotland **to a materially greater extent**. It is our view that the two transmission systems are fundamentally different and that it is not appropriate to simply extend the existing methodologies.

Compliance with Licence Objectives

BWEA notes that it will be a licence condition that the GB charging methodology should fulfil the relevant objectives. These are set out in the GB transmission licences. For the Use of System charging methodology these are:

- (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent

- therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which relate to [activities to be specified]) incurred by transmission licensees in their transmission businesses; and
 - (c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.

BWEA welcomes the clarification given by NGC at the developmental GB Transmission Charging Methodology Forum on 10 August that the two scenarios set out in the consultation each (as a package) should meet the relevant objectives but that each scenario addresses the individual objectives to a varying degree.

BWEA agrees that there is likely to be a creative tension between relevant objectives a) and b) in so far as any element of the methodology may promote competition or result in cost reflectivity. This was recognised in your April consultation where (on page 17) you stated "National Grid will always be required to make a trade-off between stability and precise cost reflectivity of charging."

In these instances BWEA notes that the objective to promote competition is an absolute requirement whilst the objective that delivers cost reflectivity is conditional as provided by the words "as far as is reasonably practicable".

BWEA notes, and disagrees with, your assessment that these two objectives should take equal priority. BWEA generally supports the principle of cost reflective charging. However, where the charging methodology can provide charges that are predictable and stable we believe that this will best meet relevant objective a) and we therefore believe that where there is a choice between predictable, stable charges and cost reflective charges, it is clear that predictability and stability of charges must be given priority.

Impact on charges of the actions of third parties

BWEA notes that it is a feature of the proposed charging methodology that charges to an individual user of the system will vary over time in response to the arrival and/or departure of other users' generation and demand. This is, perhaps, only to be expected given the pursuit of cost reflectivity. However, as noted above we believe that there is a balance to be struck between cost reflectivity on the one hand and stability and predictability on the other. We do not believe that the proposed methodology will deliver an appropriate balance.

We note that in other recent regulatory initiatives, most notably in the introduction of shallow connection boundaries for the England and Wales system, changes have been approved that minimise the impact of third party actions. In the Authority decision letter on the introduction of shallow connection boundaries NGC are reported as saying "NGC considered that the sharing arrangements for connection assets could restrict competition as charges could be volatile and vary depending on the actions of other users or those of NGC." Ofgem concurred with this point and made the further point that the proposal improved NGC's compliance with its licence objective of non-discrimination.

BWEA therefore supports development of a charging methodology that minimises the impact of third party actions on a users charges. In the context of the two Scenarios presented in the consultation document this is best achieved by Scenario A.

Expansion factors

In the consultation document two scenarios are presented. Scenario A includes a single GB expansion factor (or more accurately 2 two expansion factors: one for lines and one for cables). Scenario B includes multi voltage expansion factors. The consultation concludes that Scenario B provides more cost reflective tariffs but that Scenario A provides more stable tariffs.

As discussed above, BWEA believes that predictability and stability of charges must take priority over cost reflectivity. BWEA therefore believes that the GB charging methodology should incorporate a single GB expansion factor.

Security Factor

BWEA does not support the continued approach of a locational security factor. Instead it would be more appropriate to incorporate the security element of any charge within the residual element as was the case until only a few weeks ago.

In our response to the previous consultation we set out a number of ways in which we believe that a residual security factor would be more cost reflective. Although you have addressed these points in this consultation factor, we disagree with your conclusions. We continue to believe that a non-locational security factor included within the residual charge is the appropriate approach.

We do not accept that the fact that a locational security factor is a feature of the current charging methodology in England and Wales indicates that it is a beneficial feature of the charging mechanism. You will recall that the locational security factor was introduced as part of a package of measures and Authority approval can only indicate that the package as a whole better meets the relevant objectives regardless of the benefits (or otherwise) of individual measures within the package.

Zoning Criteria

The proposed GB charging methodology retains the criteria for establishing zones at the same level as is the case in NGC's existing charging methodology for England and Wales. That is that the nodal charges within a zone do not vary by more than +/- £1/kW.

In establishing a range of prices to be used in the calculation of zonal boundaries, one is faced with the familiar trade-off between the relevant objectives of promoting competition and delivering cost reflective charges. That is to say, a wider range would result in fewer and larger zones which would have more stable boundaries and within which charges could be more predictable. Conversely a narrower range would result in more, smaller zones but could be argued to be more cost reflective.

In keeping with the points we have made above, BWEA believes that the relevant objectives would be better met if the range was widened from its current level. Whilst too wide a range may result in too few zones to satisfy the pursuit of cost reflectivity, BWEA continues to believe that it would be instructive to model the impact of a doubling of the range to +/- £2/kW

G/D split

BWEA notes the proposal that adoption of Scenario B should incorporate a change to the split of charges between Generation and Demand. Although (as set out above) BWEA does not support Scenario B, this does not mean that there is no merit in amending this split.

BWEA notes that under Scenario B, NGC proposes to move to a G/D split of 10/90. BWEA also notes that other initiatives would effectively move this split further towards the demand side. In particular, the proposal by the DTI to reduce transmission charges on some peripheral renewable generation and recover this cost from Suppliers will impact on the G/D split. The proposal by the DTI to limit distribution charges in some areas and recover this cost from Suppliers will have a similar effect.

The proposed retention of a 10% charge to generation appears arbitrary and it is possible that future amendments to the charging methodology may require further amendments to the G/D split. Since both NGC and DTI appear to now be comfortable with an adjustment to the current G/D split, BWEA believes that the introduction of the GB charging methodology is an appropriate time for charges in GB to be brought into line with common European practice of a G/D split of 0/100.

However BWEA recognises that to do this would not result in individual generator charges being set to zero but that, as today, there would be a range of positive and negative charges. BWEA believes that this approach will maintain the relevant objective of cost reflectivity.

Summary

Of the two scenarios presented, BWEA supports Scenario A in preference to scenario B. If no other improvements are to be made to these Scenarios then we would encourage NGC to recommend Scenario A to Ofgem whilst retaining Scenario B as an alternative.

However, in preference to either scenario, we would urge NGC to recommend to Ofgem a scenario which incorporates:

- A single expansion factor;
- A non-locational security factor;
- A wider tolerance band to be used in the setting of zonal boundaries; and
- A G/D split of charges of 0/100

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

Yours sincerely,



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