THE BRITISH WIND ENERGY ASSOCIATION

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Friday 21st May 2004

Dear Stuart,

BWEA Response: Transmission Investment and Renewable Generation

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.

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. BWEA believes 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. More detailed discussion of each point is set out below but, in summary, the BWEA believes 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**

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 Ofgem/DTI consultation on near final 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 12 May that the GB charging methodologies are not to be seen as extensions of the existing methodologies that currently apply in England and Wales but rather are to be viewed as new methodology statements. We understand that this means any proposed methodology need not be constrained by the existing arrangements in England and Wales.

BWEA notes 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 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 generally supports the principle of cost reflective charging. However, where the charging methodology can provides 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.

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 "this option would be less stable to network developments." On the other hand, the consultation concludes that "Scenario A provides more stable tariffs in order to better meet the relevant objective on competition, while retaining reasonable cost reflectivity."

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.

Whilst we understand that in practice a network owner would need to provide a level of redundancy of assets to address security of supply, the locational security factor is deficient in three main aspects.

Firstly, it assumes that the cost of building additional circuits varies across the country. This is clearly not the case.

Secondly, it assumes that the need for additional circuits is constant across the country. This does not recognise that the requirement for additional assets may be lower in urban areas where the interconnected system already provides a measure of redundancy. Nor does it recognise that under BETTA, the planning standards which will drive the need for a security factor may vary from network to network.

Finally, it assumes that in negative charging zones the cost of providing additional assets is negative which clearly is not cost reflective.

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 feels that it would be instructive to model the impact of a doubling of the range to +/- £2/kW

G/D split

BWEA notes the comment made in the consultation that adoption of Scenario B would require 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 was proposing to move to a G/D split of 20/80. BWEA further notes that other initiatives would 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 form Suppliers will have a similar effect.

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.

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