

Response of the British Wind Energy Association to the DTI Consultation on the Government response to OFGEM's report to the DTI on the Review of the Initial Impact of NETA on Smaller Generators.

1.The British Wind Energy Association represents 176 companies involved in the UK wind energy market, including all currently installed wind capacity and all of the holders of agreements for lease offshore.

2.This response concerns itself solely with the impact of NETA on wind energy, widely anticipated to represent around half of the envisaged renewables obligation.

3.It is our firm view that the operation of NETA is harmful to the growth of the UK wind energy industry and with it, climate change, security of supply and diversity are threatened.

Intermittency:

4. Wind energy is inherently intermittent, i.e. it is difficult to predict output in any half hour with certainty. This is particularly so for a single wind farm. The aggregated output from a number of geographically dispersed projects is more predictable due to diversity, but remains less certain than a typical fossil-fired generator.

5. NETA is deliberately designed to penalise unpredictability. Indeed it is not clear why this single quality has been chosen for heavy penalty in preference to others such as, for instance, environmental impact. Nevertheless the NETA mechanism penalises wind energy to a greater extent than all other significant generating technologies. This is regrettable since all commentators predict that wind energy will make the greatest contribution to the Government's Renewables Obligation targets.



Cost to the System

6. BWEA is pleased to note that both the DTI and Ofgem believe that penalties should reflect the true cost to the system of unpredictability. It is quite clear that this is currently not the case. NGC are on record as stating that there is no significant cost to the system of wind's unpredictability at energy contributions up to at least 10%. This is consistent with BWEA's view.

7. Reserve is currently held on the system for other reasons of major unpredictability e.g. loss of interconnector or nuclear reactor breakdown. Holding this reserve costs the consumer considerable sums but is not charged to the generators/transmission links whose unreliability leads to the need for reserve.

Exclusion from the Balancing Mechanism (BM)

8. BWEA would ideally seek some mechanism to exclude renewables, and wind in particular, from NETA balancing penalties. This is argued for on the basis that if there are no system costs (NGC statement), there should be no system penalties. We would be willing to reconsider this exclusion once installed capacity approaches that of, say, the interconnector.

Single cash-out price

9. If this is not possible, balancing penalties must more accurately reflect the system costs. The dual cash-out mechanism in NETA inevitably overprices the true system cost; arguably it was deliberately designed to do so. Even at the reduced (SBP – SSP) spreads experienced in recent months the penalties exceed the costs. At second-best, BWEA would propose that a single cash-out balancing mechanism is introduced. There is increasing support throughout the electricity industry for this change, which BWEA would support. It is important that the NETA Information Imbalance Charge, currently set to zero, is not increased to nullify the benefits of this change.

Imbalance revenue surplus

10. The DTI seeks our views on greater access to the imbalance revenue surplus. Whilst this would be welcome, it would be very much second best to a single cash-out price, which would substantially reduce the revenue surplus. Indeed the current size of the imbalance surplus of itself a demonstration of the failure of the BM to be cost-reflective. It is also worth noting that the current mechanism of returning this money is a positive disincentive to supply companies to purchase embedded generation such as wind power. Overall we conclude that imbalance revenue surplus is a symptom of a poorly designed balancing mechanism.

Consolidation

11. It is undoubtedly true that consolidation of wind farm outputs into a single trading unit should reduce the percentage unpredictability compared with each of the individual projects. An effective consolidation mechanism was promised by the NETA project prior to go-live, but failed to materialise despite a number of potential consolidators expressing a willingness to offer their services. This was due to the very complex nature of, and the numerous constraints built into, the proposed mechanism.

12. Consolidation could, if simplified, go some way to protecting unpredictable generators from over-penalisation. However it will remain, at best, only a partial solution. Wind power will continue to be penalised, and any financial benefits that do materialise will necessarily be shared between the generator and the consolidator, reducing the benefit to the generator. Since the Consolidator will be involved in a considerable, round-the-clock task involving complex computing systems and intellectual property, we expect him to take a substantial share of the gain. BWEA notes the initiative at present underway to deliver a workable Consolidation mechanism, but believes the benefit ultimately seen by the generator will be slight.

Ex-post trading

13. Ex-post trading is potentially a powerful means of reducing exposure to BM penalties. However it will require, again, a round-the-clock trading function. This cannot be supported by small-scale generators and would necessarily be situated either within a Consolidator or a bi-laterally contracted supplier. Once again one would therefore expect the greatest share of the benefit to accrue to the generator's counter-party.

'Dead band'

14. Proposals have been made for a 'dead band' mechanism, allowing exclusion from BM penalties for a certain volume of imbalance generation in each half-hour. BWEA argues that if a limited exclusion can be made, then a complete exclusion for renewables could equally be viable. If a 'dead band' were to be implemented it should be sufficiently large to accommodate future offshore projects with capacities of several hundred megawatts.

Summary

Overall we conclude that:

- The Balancing Market penalties currently incurred by wind power projects greatly exceed the costs of their inherent unpredictability to the system
- System costs are negligibly small for wind contributions of at least 10% of the electricity energy market. Renewables, and wind in particular, should be excluded from BM penalties.
- As second best, a move to a single BM cash-out price will lead to a more accurate reflection of system costs. It will also significantly reduce the embarrassment of high imbalance revenue surpluses, and the disincentives to embedded generation created by the current mechanism for recycling those surpluses.
- Consolidation will go a small way to ameliorating BM penalties, but is likely to be expensive, and lead to greater benefits for the Consolidator than the generator.
- Ex-post trading is potentially attractive but may produce greater benefits for Consolidators/suppliers, as counter-parties to generators.
- 'Dead band' proposals should be wide enough to accommodate large projects, leading to the possibility of total exclusion from BM penalties.
- Although not directly relevant to this consultation, this submission would not be complete without reference to the need to reduce the most serious barrier to future wind energy development, namely the operation of the UK's planning system.

A handwritten signature in black ink, appearing to read 'N.G.', with a thick horizontal line underneath.

Nick Goodall
Chief Executive
28 November 2001