THE BRITISH WIND ENERGY ASSOCIATION

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Dear Jamil,

BWEA Response: Transmission Network Use of System Charges Condition 3 on Intermittent Generation and Condition 4 on Long Term Fixed Price Products

BWEA welcomes the opportunity to provide additional views on Condition 3 of Ofgem's approval of the current TNUoS charging methodology. This response does not provide any commentary on Condition 4 as BWEA have no additional views on long term fixed price products at this point.

This response has been prepared on behalf of the wind industry and BWEA members although individual member companies with wider interests may hold a different position on some issues. This response has been prepared in collaboration with Scottish Renewables.

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

Summary

BWEA notes that whilst intermittent generation may have a low load factor, the intermittent and non despatchable nature of the fuel source and the low load factor are two separate issues. BWEA considers that it would be appropriate to make adjustments to the transmission charging methodology that would address both issues and have commented on both issues below. In addition since transmission access arrangements and transmission charging arrangements are interdependent topics we have reiterated

comments made last year in response to an NGC consultation on transmission access which we believe are relevant to this discussion on transmission charging.

Intermittent fuel sources

BWEA considers that it would be appropriate to allow intermittent generation to connect to the network at higher aggregate levels than would normally be accepted for despatchable generation. This would recognise that there is a low probability of intermittent generation in an area collectively operating at full output during the half hours that the network is most heavily loaded such as triad periods.

Whilst this would inevitably mean that on occasions there would be more generation than could be transmitted, BWEA believes that this could be managed by appropriate constraint contracts.

As a further benefit, the overall load factor of the transmission lines would increase as the additional intermittent generation would be able to generate at full output at times when the network is less heavily loaded. This would increase the economic efficiency of the transmission network.

BWEA further believes that where TNUoS charges are levied on TEC, as is currently the case, the charge for intermittent generation should be lower than for despatchable generation. This would preserve the cost reflectivity of the TNUoS charges.

For example if 2000MW of intermittent generation was connected onto the system where only 1000MW of despatchable generation would have been accommodated, the charge to intermittent generation should be half the usual TNUoS charge thus maintaining the same income from TNUoS charges.

Low load factor generation.

BWEA notes that one consequence of the approach outlined above would be higher annual loading of the transmission system in MWh transmitted. BWEA considers that it would be appropriate for a significant proportion of the TNUoS charges to be levied on MWh transmitted rather than as a capacity charge. BWEA notes the earlier work undertaken by NGC that suggests that 90% of the charges relate to peak demand conditions but remains convinced that the ratio of capacity vs. usage charges could be markedly lower than this.

BWEA notes that the introduction of a significant usage element to transmission charges would favour all low load factor plant, including peak generation plant. BWEA considers that this would be a positive benefit to system security if it encouraged such plant to remain on the system. BWEA notes that as the level of intermittent generation such as wind energy increases, in line with government targets for renewables, the load factor of existing fossil fired generation is likely to reduce. BWEA believes that the introduction of a significant usage element to transmission charges will reduce the incentives for conventional generation to seek early closure, again providing benefits to security of supply.

Wider changes to transmission pricing

In responses to other consultations on transmission charging over the past year, BWEA has begun to set out its thinking on an alternative approach for transmission charging. BWEA considers that the comments set out above are consistent with this thinking which is set out below. This is copied from our response of June last year to the NGC

consultation on “Options for Allocating GB Transmission Access Rights under BETTA” but we believe that the points made continue to be relevant.

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.

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

Yours sincerely,

Richard Ford
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British Wind Energy Association