

ADJUSTING TRANSMISSION CHARGES FOR RENEWABLE GENERATORS IN THE NORTH OF SCOTLAND

Summary of responses to public consultation

The aim of this document.

In July 2005, the then DTI published a consultation document (Adjusting Transmission Charges for Renewable Generators in the North of Scotland URN 05/1095¹), seeking views on the level of adjustment for renewable generators on the Scottish Islands of Shetland, Orkney and the Western Isles, and whether the power to adjust transmission charges for renewable generators should be extended to Northern Scotland.

The consultation closed on 19 October 2005. This document (URN 08/1043) provides an overview of the responses received. The delay in producing this document was due to Government taking on board responses which asked for primary legislation to amend the length of any proposed adjustment. The Climate Change and Sustainable Energy Act 2006 Extended the period from 2014 to 2024. Government has used the subsequent period to consider new evidence which underpins the way forward outlined in the statement published alongside this summary of responses.

¹ <http://www.berr.gov.uk/consultations/page13995.html>

Profile of responses received

Responses to the July 2005 consultation were received from the following companies and organisations:

Organisations

Beinn Mhor Power
British Energy
British Wind Energy Association
CBS Insurance Holdings plc
Centrica
Comhairle Nan Eilean Siar
Committee of the Highland Council
Community Carbon Reduction Programme
ConocoPhillips
EDF Energy
energywatch
E.ON UK
Fairwind Statkraft (Orkney) Ltd.
Highlands and Islands Enterprise
Highlands Before Pylons
Lewis Windpower
National Grid
Ofgem
Orkney Islands Council
Renewable Power Association
Royal Society for the Protection of Birds
RWE
Scottish and Southern Energy
Scottish Council for Development and Industry
Scottish National Party
Scottish Natural Heritage
Scottish Power
Scottish Renewables Forum
Shetland Islands Council

Individuals

Andrew Bluefield
Anne Campbell
Maureen MacMillan MSP (Highlands and Islands) in support of the response by the Scottish Renewables Forum
Ralph Turvey

Summary of responses to the consultation

Consultees were invited to comment on specific aspects of the proposals. Response to these questions are summarised below.

1. What impact will GB transmission charges have on renewable development on the Scottish islands of Shetland, Orkney and the Western Isles?

Those wishing to develop projects on the Scottish islands and those with a remit to promote the area economically were adamant that the current transmission charging regime would have a significant impact of the scale of renewable development in the Islands. The impact itself was difficult to quantify as the actual transmission charges were not known. Some argued that the way transmission charges were set was discriminatory as it systematically would prevent viable developments from taking place.

On the other hand, it was argued, mainly by those with projects across GB, that transmission charges themselves were not the key to making investment decisions in the islands. Transmission charges would be countered by other factors such as high wind speed. As with any other investment, a whole range of issues needed to be considered before a business decided to invest, transmission charges is one of those factors. This view was arguably supported by the fact that no firm evidence was presented that transmission charges themselves were a deal breaker for a project. It was also pointed out that BETTA, which created a single GB electricity market, has made it easier, and cheaper, for generators to sell their product to the whole of the GB market. While it was accepted that transmission charges would be high for the Islands, other matters worked in developers' favour.

One respondent argued that transmission charges would have no impact at all as any development would cost so much money they would be unlikely to be viable regardless of the level of transmission charges.

2. Are particular types of development more likely to be affected?

There was no consensus on what sort of projects would most feel the impact of high transmission charges. Some argued that all projects would be affected whilst others that just those connected to the transmission network would be uneconomical. Arguments were made that renewable projects and small scale generators would not be able to raise finance if transmission charges were set at the expected high levels. One respondent estimated that projects over 200MW may be viable. A case was made that support focussed on specific renewables technology and location would dilute any assistance which could be offered elsewhere,

which might help develop renewable goals better than that offered by developments on the Scottish Islands. A final argument was stated that transmission charges alone would not have an impact on any particular type of development as they are just one of a number of considerations developers need to take into account before making an investment decision.

3. What effect would an adjustment scheme be likely to have on the amount of renewable generation on Shetland, Orkney and the Western Isles?

As with other questions, those who would benefit economically, either directly or indirectly, argued that an adjustment scheme, if set at the right scale, would have a positive effect in encouraging new renewables projects to the Islands. Consensus was found in that most respondents felt that the window of an adjustment scheme until 2014 was too limited to make any difference. Some developers and development agencies wanted a fixed rate for the lifetime of a project to allow for cost certainty.

Arguments were made that an adjustment scheme would allow a fuller exploitation of the renewables potential in the Islands, including new technologies, such as marine. As well as helping broader environmental goals, the development of projects would give a welcome boost to the local economy.

On the other hand, concern was expressed that an adjustment scheme would do little except enhance the profits of developers looking to invest in the Islands. It was also suggested that an adjustment scheme would displace other investments in the GB market rather than encourage new projects. Those supporting a scheme for Northern Scotland argued that any project bound for their region would go the Islands if the Islands, but not Northern Scotland, benefited from adjusted transmission charges. A final comment was that Government needed to articulate clearly its policy with regard to what it believes is best: the benefits of generation based close to demand against renewable projects in remote locations.

4. What would be the costs and benefits of putting a scheme in place covering the Scottish islands of Shetland, Orkney and the Western Isles?

Given that the estimated transmission charges in the 2005 consultation document produced a spread of figures, a number of respondents stated that it was difficult to answer this question until the figures have been refined.

Benefits identified included the point that additional generation in the Islands would enhance GB security of supply. New renewable generation on the Islands would do away with the need to replace existing diesel generation. One respondent in favour of an adjustment scheme argued that such a scheme would lead to approximately £2billion of investment which would result in 2GW of wind power. Organisations with a remit to promote the economy of the region pointed to the local benefits of new developments. It was also suggested that the costs in the consultation document had been overstated, as if there was not a support mechanism for the Islands, Government would have to look at alternative ways to incentivise other renewable projects to meet targets.

Some argued that the additional cost to consumers was unacceptable. Others, that the costs to consumers were small and that the other benefits justified them. It was also pointed out whether it was equitable that developers and local communities should reap most of the benefits when the costs would be borne by all GB consumers.

Arguments were made that real costs such as the impact on tourism and the environment were not properly considered in the consultation document. There was quite a strong strand of opposition to renewable developments on the Islands and the accompanying networks infrastructure they would require.

5. On the basis of these costs and benefits, should the Government put in place an adjustment scheme covering the Scottish islands of Shetland, Orkney and the Western Isles?

It is of no surprise that those businesses and organisations with a vested economic interest in renewable developments on the Scottish Islands argued strongly for such a scheme. Those operating either GB wide or outside of the Islands zone argued against a scheme. Those in favour reiterated the benefits such a scheme would bring and argued for it to be extended beyond 2014. Those arguing against explained that such a scheme creates an unwelcome precedent against cost reflective charging. This dampens investment signals which would lead to less economic investment decisions which ultimately are paid for by consumers.

6. What impact will GB transmission charges have on renewable development on the mainland of Northern Scotland?

Those with operations GB wide pointed to the queue to connect to the transmission network as evidence that transmission charges do not have an impact on Northern Scotland. It was also pointed out that generation located in Scotland is now in a better position to sell its product with the creation in April 2005 of a single wholesale GB electricity market. In

contrast to these arguments, others argued that discounts were required especially to help smaller projects and those using innovative technologies. Growth would stagnate without lower charges.

7. Are particular types of development more likely to be affected?

As with question two there was a wide spread of opinion from all generation to none. A reasonable middle ground suggested that new technologies, including marine, may struggle with current transmission charges. A number of respondents, again mainly those with a local vested interest, were concerned for all renewable projects.

8. What effect would an adjustment scheme be likely to have in the amount of renewable generation on the mainland of Northern Scotland?

One respondent, with significant generator interests, felt that it would help bring a further 400MW on stream and help with marginal and new technologies. Another respondent with a similar profile felt that transmission charges would have to be greatly reduced before a noticeable impact was felt. Others supporting an adjustment scheme believed there would only be a positive effect, i.e. new generation, if the scheme was to be for the lifetime of a project. An adjustment would also aid investor confidence. One respondent argued that it was difficult to assess Northern Scotland as a whole and it would be better to produce further analysis on each region of Northern Scotland. Arguing against an adjustment scheme, one respondent felt there would be no effect, while another believed that it would just increase the profitability of developers. A final argument was made by a business looking to develop a windfarm in the Islands that the effect of a scheme on Northern Scotland would be much less than one for the Islands.

9. What would be the costs and benefits of putting a scheme in place covering the mainland of Northern Scotland?

Responses to this question were similar to arguments put forward when answering question four. It was again raised that the Government had overstated the costs in the consultation document. It was argued that there would be considerable climate change benefit if an adjustment scheme is introduced to Northern Scotland. One response wanted a project lifetime cap on charges to allow more projects to be developed. Another felt a scheme for the whole of Northern Scotland was unnecessary but Ministers should intervene where needed in different locations in Northern Scotland. Arguing against a scheme it was pointed out that all GB customers would face higher bills following a scheme. There was also a concern that a scheme would create a perverse

incentive with regard to where investments in generation should be made. The goal should be to have efficient investments. Cost reflective charges offer sharp signals to would-be investors. Anything countering cost reflectivity would dull those signals and lead to inefficient investments.

10. On the basis of these costs and benefits, should the Government put in place an adjustment scheme covering the mainland of Northern Scotland?

General points made in favour of a scheme argued that it would help marginal technologies and could tip the balance in favour of peripheral projects. It was suggested that any scheme for Northern Scotland could be shorter in duration than one for the Islands. It was also argued that Northern Scotland was too large and diverse an area to accommodate a blanket scheme. Arguing against the proposal, several responses highlighted the need to keep the departure from cost reflectivity, and consequent economic inefficiency, to a minimum. It was again highlighted that the queue to connect suggested there was no need for a scheme. Some, who had argued in favour of a scheme for the Islands, felt a similar scheme for Northern Scotland would only have marginal benefits which would not outweigh the costs.

11. In the case of an adjustment scheme for the Scottish islands of Shetland, Orkney and the Western Isles, should the specified level above which charges are adjusted be a fixed amount, adjusted so that it retains its real value, or should it be pegged to the level of mainland charges?

Those looking to develop projects in the Islands and those with a remit to support economic development there, were keen to argue for a rate to be fixed for the lifetime of a project. This, they argued, would give developers the certainty they require to make investment decisions. Those arguing in favour of a scheme felt the most appropriate rate would be the mainland zone where the transmission line lands. The converse argument to a fixed rate was given by those with GB-wide generation assets who pointed out that as no-one else benefits from the certainty requested by developers on the Islands then it would be wrong to agree a fixed rate for Island developments.

12. If a fixed amount, is £25/kW an appropriate level; if the latter, is the highest level if existing charging zone (currently £23.10 on Skye) an appropriate level?

A number of responses from developers suggested that rather than fix a figure or link it to the highest level it would be better if the charge was the same as the zone where the transmission line landed. One response

suggests it should be linked to a zone with at least three generators and another that it should be an average of the zones across Northern Scotland. It was also argued that, to help with certainty and financial planning, the charges should be set at what is currently the highest rate and remain at that level for the life of a project.

13. Is 50% an appropriate level of discount above the specified level? If not, what level of discount should apply and why?

Most respondents commented that 50% seemed to be an arbitrary figure. One argued that as some wanted a 100% discount and others 0%, they could understand why Government picked 50%. In general it was felt that 50% offered a healthy discount but it was not possible to analyse the impact without knowing what 50% would represent a discount of. One developer argued that 50% would only be adequate if the adjustment lasted for the lifetime of any project. Some argued against a discount in favour of a cap as developers wanted a ceiling on transmission charges. It was also suggested that a different discount rate could be applied for different areas and different technologies. Arguing against a discount, and indeed the scheme, it was suggested that the purpose of cost reflective transmission charges was to encourage efficient investments. Any discount would have the opposite effect and encourage inefficient investments.

14. Beyond the requirement for NGC to adjust transmission charges, and the requirement for suppliers to pay additional charges, are there any additional issues that would require the modification of transmission and supply licences in order to facilitate the implementation of an adjustment scheme?

There were some general comments questioning the overall way National Grid develops its charging methodology. It was suggested by one respondent that areas without any renewables should pay to have their electricity conveyed to encourage more renewables in each area of GB. There was concern that the different definition of transmission in Scotland compared to England and Wales put developers looking to invest in Scotland as a disadvantage. Finally it was suggested that industry codes may have to be revised following any licence modifications.

Other issues raised by respondents

Respondents raised issues in a number of other areas beyond the specific questions posed in the consultation document.

Extending the lifetime of any scheme

There was a consensus centred on the view that any adjustment scheme would have little value if it ended in 2014. Government was urged to address this by amending primary legislation. The Climate Change and Sustainable Energy Act changed the end date of any scheme to October 2024.

Protection of the natural environment and tourism

A number of objections to an adjustment scheme did so on the grounds that windfarms and the consequent overhead wires would have a negative impact on the aesthetic landscape of Northern Scotland and the Islands. Their argument centred on objecting to any scheme that may incentivise such investments. As a knock-on effect if more generation in these regions, it was argued that more work should be done to evaluate the potential negative impact on tourism adding that tourism employs many thousands more in the region than generation ever will. It was suggested that sub-sea cabling options should be considered.

Impact on consumers

Government was reminded that, like the Regulator, it has a statutory principal objective to protect the interests of consumers, wherever appropriate by promoting effective competition. While there was full support for the move to increase the amount of renewables in the generation mix, it was argued that this should not be done at a disproportionate cost to consumers. Cost reflectivity was supported as offering the sharpest investment signals which in turn assisted the developers makes the most efficient decisions on new plant. This provided the best deal for consumers. Also by incentivising generation to be nearer demand, less electricity is lost over the transmission network which is of benefit to the environment. It was also pointed out that it was a little disingenuous to refer to a marginal impact on consumer's bills without detailing the other costs electricity consumers are now paying as part of the climate change agenda such as the Renewables Obligation and the Energy Efficiency Commitment. It was also suggested that Government needed to be more transparent in how it saw the policy trade offs between efficient, economic regulation of energy markets and using the energy sector to deliver broader environmental and social goals.

Other ways to support renewables

There were some comments which suggested that the additional costs which an adjustment scheme would impose on consumers would be better used to support renewables GB wide.

Refining transmission figures

Many responses, both in favour and against the proposal to adjust transmission charges, felt that it was difficult to address many of the questions posed in the consultation as the initial transmission figures produced by National Grid were too board to enable respondents to make clinical decisions on the scope of any scheme.