

POLICY SUBMISSION

Response to National Grid Pre-Consultation Document GBECM-17
Transmission Charging – A New Approach
A proposal by: Scottish Power, Scottish and Southern Energy, Scottish
Renewables Forum and Scottish Government

December 2008

SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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The Scottish Council for Development and Industry (SCDI) is an independent membership network that strengthens Scotland's competitiveness by promoting policies to create sustainable economic growth. Members are drawn from businesses, local authorities, trades unions, educational institutions and the voluntary sector across Scotland.

SCDI has submitted comments on a number of occasions to the UK Government and Ofgem on the need for charging regimes to support the development of renewables projects in optimal, but peripheral locations. It therefore welcomes the opportunity to comment on the consultation on 'Transmission Charging – A New Approach'. Our response has been informed by a major report which we commissioned from the energy consultant Wood Mackenzie on 'The Future of Electricity Generation in Scotland', which was published earlier this week. This independent research is available at: <http://www.scdi.org.uk/energy/research.html> .

The report concluded that Scotland could contain sufficient renewable capacity to meet 55% of its electricity supply from renewable sources by 2020 and continue to export electricity to England and North Ireland. This is likely to mean a 500 per cent increase in the numbers of wind farms, with Scotland needing around 450 MW of new wind power every year until 2020. This will require £10bn of investment in new electricity generation between now and then. In the recently published draft UK Renewable Energy Strategy, the UK government expects that around one third of new UK renewable capacity will come from onshore wind and that a large proportion of this development will take place in Scotland. In addition, Scotland has Europe's strongest wave and tidal resources.

The very recent developments in UK and Scottish renewable energy and climate change commitments should be the context for National Grid's consideration of the suggested new approach to transmission charging. SCDI would suggest that the current economic climate is also important. Renewable energy companies are experiencing serious difficulties in financing projects. NEX, an index that tracks renewable energy technology stocks globally has fallen faster than the market as a whole. New Energy Finance has calculated that the amount of project finance devoted to clean energy projects around the world fell by almost 25% in the third quarter (to \$18bn) and will fall further by the end of the year.

Early renewable projects have been sited in areas of best resource. The UK and Scottish renewable energy targets will now require an unprecedented and rapid expansion in areas which are more marginal. However, SCDI members in the Highlands and Islands are currently noticing a substantial drop in the development of wind farm projects. It is critical, therefore, that the UK's transmission charging regime supports the financing of new projects through a fair and transparent approach.

The current system of transmission charging results in higher and less predictable charges for Scottish based generators and is a particular disadvantage to those developing renewable energy projects in the Highlands and Islands where there is the best resource and, given the higher load factors, the most reliable sources of power. The industry believes that this will increasingly become a barrier to renewable development as growing global demand for turbines drives up the cost of projects and the margin of financial return is squeezed. The additional locational costs for generators in the north compared to the south amounts to 15% of their total costs and will increasingly make it less attractive to export "clean" electricity to consumers in England. It will also disincentivise investment in extending the life of and constructing new thermal plants to back up the variable power from renewables.

The UK's current transmission charging system also seems seem contrary to European Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market. It calls for charging regimes to be non-discriminatory for electricity from renewable sources, including in peripheral areas.

SCDI has called for a fundamental review of locational charging. It is supportive of the proposals by the Scottish Government, ScottishPower, Scottish and Southern Energy, and the Scottish Renewables Forum for a new methodology in which there is a level-playing field with generators using the UK transmission network being levied at a uniform rate for each unit of energy that enters the system, irrespective of its location. This would appear a simpler, more predictable and fairer system, which is aligned with Government policy objectives and would not impose extra costs on National Grid or the

consumer. Locational signals could be provided in other ways under consideration by the industry. The new approach would also support integration of the European energy market.

SCDI accepts the view that there are other important barriers to new generation, renewable or otherwise, especially the present planning regime. However, it believes that the current transmission charging regime is a significant disincentive and that a more appropriate approach is needed to achieve the stretching renewable energy and climate change targets which the UK Government has agreed for the European Union, particularly at this very challenging time for the economy. It would urge National Grid plc to agree to the further development of the proposal.

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