

Electricity transmission charges: dispelling the myths

Electricity transmission charges following introduction of British-wide electricity trading and transmission arrangements in April 2005

The way that generators and customers are charged for using the national grid will be standardised across Britain in April 2005.

These new charges will come into effect at the same time as the introduction of a British-wide electricity market which will join Scotland to the England and Wales market for the first time.

National Grid Transco (NGT), who will operate the GB transmission system, is responsible for developing proposals for charging for the grid. Ofgem must approve them.

This briefing responds to newspaper articles over the weekend, 10 and 11 July 2004, and to myths surrounding the principles of cost-reflective charging.

Charging principles

New ways of charging to transmit electricity will need to:

- help competition in electricity generation and supply markets to operate properly across GB
- reflect the real costs of transmitting electricity, and
- send important signals about the costs of locating generators in different parts of the country
 - this will influence decisions on which older power stations should close and where new stations should be located.

Ofgem's statutory remit is to protect consumers

Media coverage focused on the effects that new charging arrangements will have on generators - but that is only part of the story.

Some of the potential benefits of new ways of charging are to:

- ensure the transmission system is no larger than it should be
 - this will lead to lower transmission costs and lower bills for all customers
- help the environment as there will be fewer pylons and lower losses from transmitting electricity long distances, and
- benefit Scottish customers, in particular, as their transmission charges will fall significantly.

Dispelling the myths

Myth

Proposals could undermine the prospects for renewable generation in the north of Scotland

Fact

Renewable generators already receive substantial financial support, around £500 million a year from customers, through a Government scheme known as the Renewables Obligation. The new charges will not hold up renewable development.

Overall, British-wide electricity trading and transmission arrangements will benefit renewable generators in Scotland. The new arrangements will bring access to a wider market, ie Great Britain, and a level playing field for all generators.

Barriers to entry will also be reduced - this is particularly important for small, independent generators.

Myth

Proposals could jeopardise the economics of key Scottish power stations such as Longannet and Peterhead

Fact

Revised transmission charges are part a whole package of measures being introduced as part of the new trading and transmission arrangements - including arrangements for accessing the 'interconnector' or wires which connect the Scottish and England and Wales systems.

Overall, the total effect of these proposals on Scottish generators will be broadly neutral.

Myth

The proposals are 'anti-Scottish', 'prejudiced and biased economics' and amount to a 'subsidy to the south'

Fact

The costs of transmitting electricity increase with distance - this is a matter of fact and physics. The new arrangements are designed to reflect this.

The proposals are not 'anti-Scottish' - they will benefit Scottish customers by lowering transmission charges and stop customers in England and Wales being 'subsidised' by customers in Scotland.

It makes sense to encourage plant to be built closer to demand.

- This reduces the amount of wires that need to be built and, in turn, reduces the costs which would be passed on to customers, and
- reduces the amount of electricity lost as heat as it travels along the wires - which is good for the environment.

The arrangements have also been shown to work. Generators subject to this form of charging in England and Wales have responded by closing older coal-fired plant located in areas a long way from demand - and by building new plant in areas closer to demand, such as London and the South East

If Government renewables targets are met by 2010, 90 per cent of generation will still be non-renewable. This is why it remains important that new plant locates in the right place.

The process for agreeing new charging arrangements

National Grid Transco (NGT - the operator of the GB transmission system) is presently developing, in full consultation with all generators and users, a new system for calculating transmission charges. Any new system of charging has to be **approved by Ofgem**.

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