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## **NETWORK REFORMS PAVE THE WAY FOR MASSIVE INCREASE IN BRITAIN'S LOW CARBON GENERATING CAPACITY**

- **Network reforms will help connect more sustainable low carbon generation to maintain security of supply and meet EU targets for renewables**
- **New arrangements will make it easier and faster for generators to connect to the high-voltage transmission network (national grid)**

A radical shake-up of the rules governing access to the high-voltage electricity transmission network, and the investment incentives on the transmission companies are being proposed today by Ofgem and the Department for Business, Enterprise and Regulatory Reform (BERR).

The changes would allow for much faster connection of more than 35 gigawatts (GW) of renewable generation to meet the Government's target of generating 15 per cent of Britain's energy from renewable sources by 2020. The reforms will also make it easier for other low carbon generation and any new nuclear plants to connect to the transmission network as our existing power stations reach the end of their operating lives or need to be replaced with lower carbon forms of generation.

Access to the transmission network is currently governed by rules that were devised to connect large conventional gas, coal and nuclear power stations. These rules are poorly suited for rapidly connecting a large volume of smaller renewable generators or a significant volume of new conventional, lower carbon generation. Now reform of the access rules is critical if Britain is to achieve its 2020 renewable targets and to maintain security of supply as we seek to lower carbon emissions from the electricity sector.

Ofgem's Managing Director for Networks, Steve Smith, said: "Industry must embrace the challenge of making sure the expansion of renewable generation is not delayed solely because of the arrangements for governing access to the high-voltage transmission network.

"Reforms to arrangements for accessing the network will allow the connection of more than 35 GW of new generation. Ofgem and BERR are determined to drive through these reforms and the Government will consider legislation if the industry tries to delay or resist change.

"We will also change the financial incentives on the transmission companies to invest in the new capacity that will be needed to connect more remote renewable generation. This will allow the transmission companies to build future capacity so it is ready when the new generation comes on stream. It will also protect customers from having to pay for unnecessary investment in new capacity. This is vital in an era of rising fuel prices and fuel poverty."

Speaking at the launch of the Government's Renewable Energy Strategy Consultation, Secretary of State for Energy, John Hutton, said: "These reforms are key to the massive increase in renewable energy we have outlined in our strategy today. Working with Ofgem we can make it easier and quicker for more clean, green energy generators to connect to the National Grid. This will help meet our share of the EU renewable energy targets, lower carbon emissions and further help security of supply."

Plans to reform the access arrangements and investment incentives will be developed and implemented over the next two years. However, recognising that there is already a substantial queue of lower carbon renewable generation needing access to the system, Ofgem is also proposing short term measures to allow more generation to connect to the existing transmission system before new capacity is built. This could see more than 1GW of additional renewable capacity added to the system if developers are able to accelerate their existing plans.

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## Notes to editors

### 1. Connection queue

National Grid currently operates a 'first come – first served' approach to generators wanting connections on the transmission network. This means generators who have no planning permission or finance can occupy a place in the queue and delay generators with planning permission and finance in place from getting a faster connection. This can mean generators who have a realistic chance of being built having to wait years for a connection.

### 2. Reforming Transmission Access

- **Short-term measures.**

As an interim measure there should be a form of 'connect and manage.' This would allow projects with planning permission to connect to the transmission system before the additional capacity has been built. The System Operator of the transmission network would then take a more hands on role to manage the capacity on the network, ensuring capacity is shared with existing generators. This should allow the faster connection of around 1 GW.

- **New access arrangements**

The energy industry is now coming forward with a range of proposals to put in place new arrangements for access. Ofgem and BERR believe these proposals must include the following:

- **Quicker connections.** New generation should be offered connections to the transmission network reasonably near to the date when their project is completed
- **Paying for capacity.** Generators wanting access to the transmission network will have to pay for it. This will need a flexible system whereby generators can buy and sell rights to capacity on the transmission system
- **Sharing existing capacity.** At the moment there is little incentive for generators to share transmission capacity. This will be important in the future given the intermittent nature of wind power and the need for thermal power stations to provide back up. Not sharing capacity unnecessarily limits the amount of generation that can connect to the system under the current rules.

### **3. Meeting the Governments 2020 targets**

Given the long time it takes to get transmission networks through the planning system and then built, Ofgem believes further measures are needed to ensure the 2020 target is met.

- **Transmission investment studies**

Ofgem has asked the transmission companies to prepare scenarios and associated costs to deliver the transmission capacity required to hit the 2020 targets. Ofgem will publish these scenarios this winter.

- **Building transmission wires ahead of generation**

- Under the proposed new incentive framework, transmission companies will be able to build networks ahead of securing contractual commitments from generators to fund the links.
- They can earn higher returns on these investments if there is sufficient demand for the capacity once constructed. However, they will earn lower returns if the new capacity is not fully used. This will allow the companies to build new capacity sooner, given the lengthy construction times, whilst protecting customers from the financial and environmental costs of new transmission lines that are built but not used.
- This incentive scheme is needed as generators cannot yet signal where they want capacity as the Government has not yet agreed the financial support required to pay for the expansion of renewable generation needed to hit the 2020 targets.

### **4. Timetable for reform**

The proposals for reform will be presented to Ofgem in October Ofgem will then consult on the proposals before making a decision. However, this process, including the time necessary to develop IT systems, is likely to take 18 months.

### **5. Review of Industry Governance**

Ofgem will shortly be outlining proposals to consult on improving the rules that govern the electricity and gas industries as part of its Industry Codes Governance Review. The review is looking at ways to improve decision making on industry rules. Ofgem first proposed transmission access reform in 2000 but it has not been until recently that the industry has started to tackle the problem.

### **6. Ofgem**

Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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