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**Project Transmit**  
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**17/11/2010**

Dear Stuart,

EDPR UK welcome the call for evidence provided by OFGEM in the form of Project Transmit issued on the 22/9/10. EDPR UK as a company is committed to the development of wind generation within the UK. EDPR is currently acting in partnership with Sea Energy Renewables Ltd in developing Zone 1 of the Crown Estates Round 3 offshore wind energy programme in Moray Firth in North Eastern Scotland through the auspices of Moray Offshore Renewable Limited (MORL). Whilst at this time our primary focus is in the offshore market in the UK we have been and continue to explore opportunities for development of wind based onshore generation projects.

EDPR are aware of a disconnect between OFGEM's objectives/obligations and National Grid's license obligations, particularly in relation to OFGEM sustainable development duty. It is with this in mind that we intend to respond to the call for evidence. EDPR are seeking to engage with all interested parties with a stake in the development and expansion of UK generation capacity and the associated expansion of the Transmission Network in particular where it facilitates the connection of renewable generation in those areas of maximum potential.

We are mindful of all of the competing interests in undertaking such an exercise and are appreciative of the open approach that OFGEM have taken in asking for these initial submissions and of the intent expressed in the recent workshop held by OFGEM in Birmingham. We are hopeful that an open debate will result in a mutually acceptable way forward that will facilitate the meeting of National and European targets on climate change. We are cognisant that any changes must also recognise the requirements of any future European integration initiatives and that any solution reached must have a degree of flexibility and future proofing built into it to avoid any uncertainty over future sea changes in policy that may seek to dilute investor confidence in all forms of generation plant development.

The main areas of concern to EDPR relate at this time to the connection and charging elements of this call for evidence. In relation to the charging elements the main area of concerns for us is the TNUoS charging and its zonal nature. We recognise that in addressing issues relating to TNUoS there may have to be trade offs etc in relation to BSUoS charging for instance and we intend to develop

our thoughts in this matter as the consultation progresses. To directly address our priorities we have responded below to the questions as raised by OFGEM in their call for evidence:

## **Charging Issues**

### *Q Whether our objectives for Project TransmiT are appropriate*

EDPR believe that the objectives for Project Transmit are appropriate in so far as it's necessary to have a fresh and fundamental look at the way in charges inclusive of balancing services and transmission charges are levied in the light of advances in new generation technologies. It's also incumbent for OFGEM to consider if the current arrangements align themselves with National and European targets for renewable energy.

### *Q Whether the principles on which the current charges are derived remain fit for purpose given the new and emerging challenges that the energy sector faces. If not, evidence of why this is the case and suggestion of what alternative or additional principles should be adopted;*

EDPR would contend that the current zonal transmission charges whilst being fit for purpose in an era powered by conventional generation do not fit in with the current drive for the development of renewable energy. EDPR would contend that any system which adds cost to the provision of energy from renewable sources when it seeks to locate in an area best suited to provide that resource is fundamentally flawed. At this time we are currently developing our views on alternatives which seek to address this anomaly and will seek to engage fully with this consultation process.

Looking specifically at zonal TNUoS charging, this has an impact on the commercial viability of projects in the most lucrative areas for the development of renewable energy projects in locations such as the Scottish mainland as well as and its islands. One particular example of this is the prohibitive proposed TNUoS charges and securities associated with the HVDC connection to the Western Islands and in one instance this year this contributed significantly to EDPR's decision not to invest in an otherwise viable project.

### *Q Whether NGET's and NGG's approach is consistent with the principles currently in place, and whether their approach is applied consistently;*

EDPR view is that the approach is largely consistent at present and that it is generally consistently applied. However we contend that in the context of the system requirements and the need for an expanding generation base particularly in relation to renewables it is still lacking in some areas.

EDPR note that while the approach appears to be broadly consistent with cost-reflectivity principles, the methodology of charging intermittent renewable generators based on their full peak output as at present may overstate the costs of transmission reinforcements required to accommodate them. Full consideration also has to be given to NGET's requirement to facilitate competition in generation and supply it is worth noting that any approach that effectively deters new renewable investment by independent generators may have an adverse impact on competition which would be counter to the current principles.

*Q Whether the current arrangements deliver value for money to energy consumers;*

EDPR would contend that in the narrower context of committed investment in transmission infrastructure upgrades they probably did. However in a wider context, our contention is that a more appropriate question going forward is do any future arrangements deliver value for money whilst actively encouraging investment in new generator connections, particularly those of a renewable nature. The answer to this question has to be yes.

EDPR further contend that the current arrangements have not consistently delivered value on broader measures such as reducing emissions and lowering the risk of damaging climate change, facilitating competition and new entry in the generation sector, and increasing the security and diversity of the energy mix, all of which are also of value to energy consumers. EDPR believe that more robust methods have to be adopted to encourage investment in renewables as this will be of high value to consumers in the long run.

*Q Whether the current arrangements facilitate appropriately the connection of low carbon generation including renewables and any other new generation, preferably with evidence of impacts of transmission charges on such generation (note that this, as well as all other parts of a response, can be provided on a confidential basis);*  
*and*

*- Whether there are particular issues associated with transmission charging that should be prioritised.*

In short EDPR believe that for renewables in particular the answer is no they do not. The current charging and connection arrangements are cost reflective in relation to infrastructure investment and that are equitable to all on zonal basis. That is they treat renewable and other forms of generation equitably within each individual charging zone but they are not equitable or encouraging of renewables in general in a wider UK context. This is because those areas associated with high renewables potential particularly as cited previously as Scotland and its islands pay significantly more in relation to charges than generation cited elsewhere. If we are to have the best deal for consumers overall then we must have a solution which caters for and recognises that when a renewable generator is situated in the most cost effective location to deliver cheaper energy to the consumer. Ultimately these costs are reflective of the operating costs of the generation plant in £/MWh as well as the cost of the infrastructure required to connect it.

## Connection Issues

*Q Whether our objectives for Project TransmiT are appropriate;*

EDPR believe that the objectives for Project Transmit are appropriate in so far as it's necessary to have a fresh and fundamental look at the way in which securities for connection arrangements are quantified and apportioned.

*Q Whether there are practical problems hampering connection to the network. If so, we would welcome evidence of the problems and suggestions for resolution;*

From an EDPR UK perspective the main issues hampering connection to the network at present are the level of securities required to be put in place on signing of a connection and the continued uncertainty over what those securities will look like going forward.

Consider the requirement for securities under the system in place prior to current the temporary arrangements allowing developers now to be responsible solely for the underwriting local works. The additional cost of the wider works was so prohibitive it preventive developers committing to connection agreements causing projects to stall or fail entirely. Further the knock on effect of this is an uncertainty over the requirements for reinforcement of the transmission system going forward leading to uncertainty throughout the industry which further stymies the development of additional generation capacity.

EDPR would contend that we believe that any connection process which includes the assigning of securities for wider system reinforcements works, as has been prevalent in the past is less than transparent. The methodology is difficult to understand and when set out in connection agreements it's very difficult to appreciate the reasons for its inclusion. It's also overly onerous as it reflects the contribution required of a generator seeking to consent against the existing contracted background which can be overly pessimistic and act as a barrier to commitment. For example several Round 3 projects would have received their connection offers at around the same time, yet all would have had the most onerous securities reflected in the offers despite everyone knowing that the wider works were likely to reduce significantly if they all signed up.

The situation has improved with the introduction of connect and manage and NGET's introduction of alternative methods allowing choices to be exercised in how those securities are provided. The recent calculation of FSL's based solely on local connection works is very much welcome in addition to the IGUCM methodology which seeks to remove prohibitive securities particularly in relation to projects in their very early stages.

In general provision of securities for onshore connections under the regime presently being applied by NGET is extremely useful and removes the previous barriers to securing a connection agreement. However it will be necessary to make such arrangements permanent rather than just temporary to

ensure that in the development process the securities can be predicted with a reasonable degree of certainty up to the date of connection.

The method of providing securities in respect of transmission connections to the islands should also be considered to find a more amenable method of securing such works. Cognisance should also be given as to what level of anticipatory network development in respect of renewables generation potential on islands in particular should be permissible to help the UK maximise the generation in these remote offshore locations. There are synergies here in relation to offshore developments also.

The lack of flexibility in relation to anticipatory development evident in the failure of the Western Isles link was another factor in discouraging EDPR from investment in the renewable development cited earlier in this response. The uncertainty surrounding risk of progression of development of the link allied to the high TNUoS referred to earlier effectively ended any interest we had in the project in question. On a more general note this lack of flexibility is effectively hampering the ability of renewable energy developers from accessing the resources of the islands.

EDPR in relation to its offshore interests are keenly aware that at present only the FSL security methodology is available for the OFTO elements of the offshore projects. These securities, depending on progression in relation to the consenting process may prove to be prohibitive and unpredictable in nature, in our opinion some form of IGUCM should be available in such instances.

*Q Whether the current arrangements ensure fair treatment of system users; and*

*Whether there are particular issues associated with connection arrangements that should be prioritised.*

EDPR's opinion is that the present arrangements flawed as they are in some respects do provide fair treatment of all systems in any given locational zone for any given user when considered against the current regulatory background. However whilst it may at this time be equitable to all it can also be prohibitive to all in equal measure. Looking to the future the arrangements should seek to remove the prohibitive securities from all generators in the early stages of development by considering only local users works as requiring securities.

In the general sense of fairness any requirement for wider system reinforcements having to be secured by the generators is fundamentally flawed because this methodology leads to the imposition of prohibitive securities on developments whose location is mandated by a viable wave, tide or wind resource. The imposition of such securities even for large scale developers like EDPR represents a risk too far and for smaller developer makes securing funding from a financial institution virtually impossible.

Securing only the local connection works by the developers brings with it a risk of stranded assets and EDPR are cognisant of the fact that someone has to bear this risk and at this time we have no clear opinion on how this should be managed. However we are committed to engaging in this

process and we believe that the process should try to identify who is best placed to manage such risk and indeed what constitutes an acceptable level of risk in relation to stranded assets.

In summary EDPR's concerns relate mainly to the transmission TNUoS charges, we believe that removing the zonal arrangements and maintaining the connection securities issues at a manageable level prior to connection will encourage further renewable developments. EDPR maintain that the process should seek to provide some degree of predictability and cap on these charges which will encourage investment in renewable projects both on and offshore, inclusive of potential island connections. We look forward to the next steps in the process.

Regards

A handwritten signature in black ink, appearing to read 'Damien McCool', written in a cursive style.

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