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Dear Stuart

Project TransmiT – Call for evidence

The Renewable Energy Association gives below its response to this call for evidence. As you know our members work on all types of renewable power and heat projects including many electricity generation projects that are connected to the transmission system or influenced by the transmission charging and connection arrangements in some way. Some of our members also inject biogas into the gas network. This response should be taken to apply to electricity transmission matters.

We welcome your review of transmission connection and charging arrangements. Whilst different members of the association may want to see different outcomes of the review (including some that would want to see little or no change to many aspects of the current arrangements), a holistic review that sets the framework between now and at least 2020 should allow renewable generators (and others) to invest with more confidence about how they will be charged for using the transmission network into the future. It should be noted that the last fundamental review of transmission charging arrangements in England and Wales took place in the early 1990's when the system looked very different to what is now envisaged for the medium and long term. There have of course been changes since then, but there has never been an opportunity to step back and consider whether the current fundamental approach is the best one, certainly not with the possible large scale deployment of renewable technologies, both intermittent and controllable, both on shore and off shore as well as a significant new nuclear build program and the possible use of the gas network to transport CO₂ from power stations to oil and gas fields under the seabed.

The importance of cost reflective charges

We are going to begin by stating that as a matter of policy we believe that in general transmission (and distribution) charges should be cost reflective. Different people will have different understandings of what is meant by cost reflectivity and we will leave that to the side for the moment but we would not be in favour of a system where all parties paid the same transmission charges (connection and use of system charges are lumped together for this) per MW or per MWh irrespective of the costs that their presence, in combination with the presence of other parties, caused the transmission system owners to incur.

The traditional economic justification for this is that in a system where generators choose where to locate (accepting that different technologies may have more or less choice over the matter) it is only with some type of cost reflective network charging that the overall cost of generation and transmission / distribution is minimised. Even if the government decides that we move to a system where there is central direction of where new generators may locate and thus the economic efficiency argument for cost reflective charging was no longer relevant, it would still have an equity (fairness) justification.

What determines the costs that determine the cost reflective charges?

For any given pattern of generation and demand the charges that they will have to pay are determined not just by the charging methodology used but more fundamentally by the network that is required to interconnect all the generation and demand. So the starting place for knowing what charges parties will have to pay is not the charging methodology but the rules that determine what network is required for any given generation / demand combination. The key point to draw from this is that any uncertainty or fundamental change in the standards to which the network are planned could have a profound effect on the charges that network users will have to pay. It would therefore make sense that NGC's fundamental review of its security standards is brought to a conclusion before the review of charging is completed so that a later major change to the standard do not make any assumptions or indicative charges used to assess the charging review invalid. A prompt conclusion of the SQSS review would also put the Transmission Price Control Review for 2013 to 2021 on a firmer foundation.

Liability for payment of transmission charges

As you are aware from our letter to you, jointly with other parties, of 3rd October 2010, we feel strongly that it is wrong for several reasons to charge people for using the transmission system when their output does not flow onto or off it. We will not repeat all the contents of that letter here but merely summarise that charging parties for flows that do not go onto or off the transmission network is not cost reflective and would either be unwieldy to implement or would introduce a number of arbitrary distortions and promote uneconomic investment in unnecessary private networks.

Turning now to the items on which you specifically invited views:

Charging

Whether our objectives for Project TransmiT are appropriate;

The stated objectives are:

“to ensure that we have in place arrangements that facilitate the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers.”

We think that these objectives are entirely appropriate but it must be recognised that they actually cover work in all areas on transmission not just charging. In particular these objectives can only be achieved by the work on charging in combination with that on the price control and most importantly ensuring the SQSS (the standards to which the transmission system is built and operated) is appropriate.

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.

The current principles are that charges should:

- a Facilitate Competition - that compliance with the Use of System Charging Methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- b Cost Reflective - that compliance with the Use of System Charging Methodology results in charges which reflect, as far as reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses; and
- c Business Reflective - that the Use of System charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.

Taking these in turn we agree that facilitating competition is appropriate. We think that this important to consider facilitating competition on a European basis. In other words having transmission related charges for generation (comprising the totality of connection, TNUoS, BSUoS and loss related charges irrespective of whether the latter are recovered through the energy market rather than as a transmission charge) in Great Britain that are on average systematically higher (or lower) than those of our competitors in other parts of Europe does not facilitate fair competition.

Clearly if there is a cost reflective reason why charges should be higher or lower then it is appropriate that that is reflected in the charges. Deciding though as a matter of policy that x % of the charges for the network, losses or whatever should be recovered from generation is not a matter of cost reflectivity so having these out of step with the general levels in other parts of Europe is not facilitating competition.

We agree with the general principal of cost reflectivity. Obviously there is scope to debate what cost reflective may or may not mean, for example is it related to actual costs incurred or planned to be incurred or hypothetical future costs based on assumptions of what may be necessary in the future or an assumption that any increase in flow on a circuit requires it to be reinforced and this can be done (or more accurately is charged for as if it can be done) incrementally.

Whilst some of our members are content with the current arrangements in this respect it is inevitable that the various possible interpretations of what is cost reflective will be debated at length as part of Project TransmiT. Our members will no doubt participate with enthusiasm in those debates.

As regards the requirement for the charging methodology to be business reflective we have no idea what this means. Perhaps if somebody can explain what is meant by this we may comment on it. If nobody knows what it is meant to mean it would be better omitted.

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

We do not think that the current approach facilitates fair competition between generators in Great Britain and those in most other parts of Continental Europe. Different members have different views as to how cost reflective the current ICRP methodology is.

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

To the extent that the current arrangements are cost reflective, this does deliver value for money for customers in terms of minimising total costs. Note that there may be other areas related to transmission, for example the standards to which the system is operated and planned, where we would question whether customers are receiving value for money.

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

We have thought about this question carefully and considered circulating a questionnaire amongst members for them to give examples of their projects that have not gone ahead because of high TNUoS charges as well as those that have become viable because of low or negative charges. We felt that it was inappropriate for us to collate such information and instead informed members that if they wished to share such information directly with Ofgem, you would find it useful.

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

Our view is that this project should avoid rushing through “urgent” changes but try to ensure that whatever charging arrangements emerge (which may be a continuation of the current ones) are stable for a reasonable length of time, thus allowing some certainty for generator investment decisions.

Clearly however stable the charging methodology is if, as a result of any change to the SQSS, transmission investment requirements and hence charges change, all the benefits of a stable charging regime may be undone.

Connection Arrangements

Whether our objectives for Project TransmiT are appropriate;

We think that the objective to have in place arrangements that will facilitate the timely move to a low carbon energy sector etc. is appropriate.

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

In the past the requirement to provide security cover for major infrastructure work, sometimes placed on relatively small projects as been a major practical obstacle to progressing projects. At an extreme we are aware of more than one example of over £100m security being required for a wind farm of around 10MW.

We hope that the removal of the requirement to secure non local works will make this a less serious issue in the future. There are however issues that should be addressed including clarification of the applicability of the interim generic user commitment scheme to distribution connected generation.

On a more basic level we would question the need for the provision of security on the scale that is requested. The key requirement to establish is that the project developer is serious, not that they can underwrite significant transmission investment that may be needed even if their project does not go ahead.

The requirement for parties without an adequate credit rating to put in security by means of cash or a banker's draft is expensive and puts these companies at a competitive disadvantage compared to companies with an acceptable credit rating. It should be clear to NGC from the other work that developers are doing involving significant expenditure that the developer is serious. Quarterly reports are a channel for establishing this. If additional security is required some consideration should be given to the arrangements established in Germany in 2007 (the "power plant grid connection ordinance or KraftNAV"). In this generators of 100MW or more have to provide generally non refundable security of €1000 per MW. There are special arrangements for renewable power projects and CHP. Something similar would recognise that generators of less than 100MW are unlikely to have a significant effect on the transmission system (except possibly in Scotland and offshore because of 132kv being categorised as transmission there). Where transmission reinforcement is driven by a large number of relatively small projects, the probability of the transmission investment becoming stranded is relatively small.

Whether the current arrangements ensure fair treatment of system users;

With the exception of the requirement to provide security discussed above we are content that the current ultra shallow definition of connection assets ensures fair treatment as regards connection.

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

Our views on this are the same as those made for charges earlier although we are tempted to suggest that as a relatively stand alone issue perhaps it would be appropriate to give priority to the arrangements for providing security.

Governance

The only comment that we would make on the governance of the process is that it should not prevent any parties' proposals being given a fair hearing and that where agreement cannot be reached and they are not taken forward there is a proper process for recording the reasons why it was decided not to do this.

We hope that you find these comments useful. Please let me know if you would like to discuss them further.

Yours sincerely

Gaynor Hartnell

Chief Executive, Renewable Energy Association