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30th September 2010

Dear Hannah

Transmission Price Control Review 5 – the way forward

The Renewable Energy Association submits its observations on your first thoughts on how to conduct the next full transmission price control review for both electricity and gas. As you are aware our members work on all types of renewable power and heat projects and as well as our interest in electricity networks some of them are also concerned with issues associated with biogas injection into the gas network.

We have assumed for the purpose of this response that the main recommendations resulting from the RPI-X@20 work will be adopted. It is quite sobering to contemplate that the reviews being discussed would therefore cover the period 2013 to 2021 i.e. after the 2020 targets and (from the current time) half way to the 2030 virtually completely decarbonised electricity ambitions.

The eight year period means in the context of electricity generation projects that there could be a significant volume of large scale ones realised by the end of the price control period, which were not even thought about by anybody at the beginning of the period. The implications for the price control are that much more attention is going to have to be given to mechanisms to deal with uncertainty than in previous control periods. It may be that some sort of a calibrated volume indicator based on total MWkm maximum power transmitted or similar needs to be developed. This is not a straightforward exercise and there will be those who argue that adjusters based on additional generation in different zones will be the best volume mechanism to use. In any event it is clear that over this period it will not be acceptable to assume a specific scenario,

allow costs to deliver that, and then have to reopen the price control when a different pattern of generation transpires. In a price control of this length the emerging disposition of generation towards the end of the period is a “known unknown” and thus needs to be catered for explicitly. We would therefore suggest that a specific work stream to cater for how to adjust allowed income for different patterns of generation emerging is needed.

We would also like to emphasise that for electricity transmission, in order for there to be any meaningful stable relationship between volume demand for transmission and the cost of providing it the fundamental review of the SQSS needs to be completed before the control is finalised. We are pleased that there has recently been some progress with this but it is important that it continues the current momentum to complete the main aspects of its work before the finalisation of the actual price control proposal. We would therefore suggest that finalisation of the SQSS fundamental review is included as a way point on the Price Control Review process by the spring of 2012 so that its effect can be taken account in the initial proposals.

It would of course be possible not to do this and to have a significant change to the SQSS as a price control reopener. It would be far preferable though to complete the fundamental review in the next 18 months or so.

We now address some of the specific issues that you have asked for views on.

The Key issues

We think that you have correctly identified the key issue for electricity transmission as the uncertainty as to the volume timing and growth of generation from renewable resources (although there is also uncertainty on the emerging pattern of other types of generation as well). Uncertainty as to how significant a role demand side response may play by the end of the period is also a significant issue.

Proposed approach for taking forward the development of the outputs

We think that the aim of having a number of working groups to progress the development of the outputs is sensible but the way that the outputs are grouped may not result in the most efficient use of working group members' time. There is no easy answer to this but we feel that it may be more productive to agree an initial set of outputs first and then consider grouping them around the expertise of the various volunteers for the working groups.

Initial thoughts on the primary outputs

We think that the initial thoughts on the primary outputs are sound. We think that there may be merit in considering a combined metric, relating to both delivering timely connection and limiting congestion for low carbon forms of generation. In other words we think that there could be a single metric involving the timely connection and the minimum subsequent constraining of low carbon generation. As such a metric would correspond well to the objective of contributing to environmental targets it has merit. Combining the outputs in this way would also prevent any tendency to delay connection of low carbon generation so as to minimise subsequent constraint costs.

Another way of looking at this is that the metric of constraining low carbon generation should be enlarged to include constraining it by delaying its connection beyond the point at which the generation project itself could be ready.

Key milestones

It is not clear why development of the primary outputs has to be completed by November. As well as being a key area of the review (which will therefore justify more time than this allows) it is not clear that it needs to be completed before the first business plans are prepared for example. The business plans should be prepared on the basis that the network companies will meet their statutory and license obligations and the detail of the actual primary outputs by which they should be measured ought not to effect the content of their business plans.

We also think that as mentioned earlier the conclusion of the fundamental review of SQSS should be included as a part of the process, with a target date of the spring of 2012.

Please let me know if you would like to discuss any of these comments further.

Yours sincerely

Gaynor Hartnell

Chief Executive, REA.