

Attn Hannah Nixon  
Partner, Transmission  
Ofgem

Date: 4<sup>th</sup> October 2010

Dear Hannah,

**Open letter consultation on Transmission Price Control Review 5 (TPCR5)  
Renewable UK response**

RenewableUK (formerly the British Wind Energy Association (BWEA)) is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 630 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies.

**Overview:**

TPCR5 is proposed to run 8 years from 2013 to 2021 and hence is a vital component in the delivery of UK's 2020 renewable targets. The Committee on Climate Change expect decarbonisation of electricity to be substantially completed by 2030, shortly after the completion of TPCR6 in 2029. In our view, although the building blocks have been put in place under RPI-X@20 /RIIO, Ofgem must provide more focus and effort to build the paradigm change in electricity demand and generation into the TPCR5 process and into the output measures, especially given the tight timetable proposed for TPCR5.

We are concerned that TPCR5 is progressing ahead of a conclusion on RPI-X@20 /RIIO. In our view RIIO should set the overall context into which TPCR5 sits. If Transmission is dealt with in isolation it is likely that inconsistencies will be introduced between TPCR5 and RIIO, with knock on effects on future price controls for Distribution and Gas.

In our response to RPI-X@20 /RIIO we have proposed that an Output Category dedicated to the low carbon and renewable targets is introduced in order to focus on the paradigm change underway in electricity. We want to see such an Output Category in TPCR5.

The business plans of the network operators must include not only their expectations and scenarios for demand (which will take account of conservation and also fuel switching from gas to heat pumps and to electric vehicles) but also for generation. The generation should include Renewables (especially to 2020) and the carbon intensity of the connected generation portfolio to assess progress to 2050, including the 2030 milestone for decarbonisation of electricity.

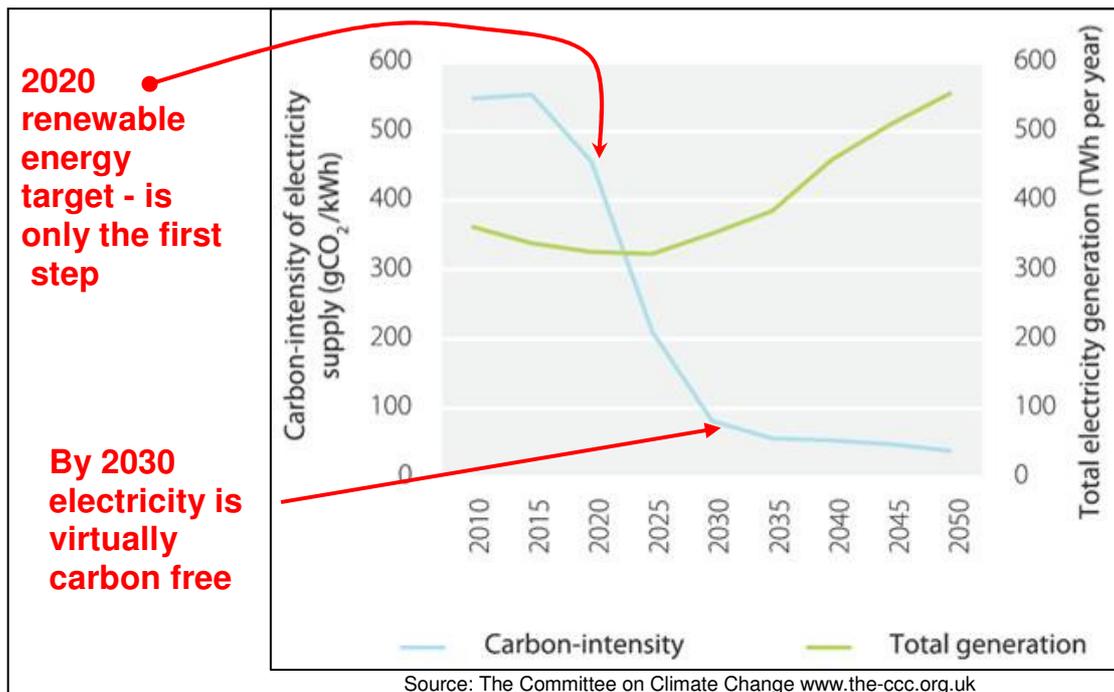


Figure 1: The decarbonisation of electricity in 2030 and the 2020 renewables target.

## Views invited

You requested the following views in your open letter.

### Views invited

We would welcome views on any of the issues set out in this letter but particularly in relation to:

- the key issues we have highlighted for the gas and electricity transmission reviews,
- our proposed approach for taking forward the development of outputs and our initial thoughts on the primary outputs (Annex A),
- our proposed approach to stakeholder engagement including our draft terms of reference for the PCRF (Annex B),
- our high-level business plan guidance (Annex C), and
- the key milestones we have highlighted for the two reviews (Annex D).

Our response to each of these points is set out below.

### a) Key issues

Ofgem has correctly identified investment for renewables as a key issue. The uncertainty in individual generation projects is recognised, however there is a high degree of certainty with regard to the overall need given the 2020 targets and the decarbonisation of electricity by 2030. There are also other major uncertainties including:

- Future growth of demand (given the conflicting impacts of conservation and fuel conversion using heat pumps and electric vehicles);
- Interconnection to Europe;
- The economics, financing and hence deployment of CCS and nuclear low carbon generation sources.

More effort is needed to manage these uncertainties in TPCR5 without losing sight of the government's low carbon and renewables targets.

The delivery of effective networks is crucial in meeting the renewables and low carbon targets and hence Anticipatory Investment is an important issue. These new networks may take about a decade to deliver so planning and funding of new assets is needed in TPCR5 to meet the 2030 decarbonisation milestone.

### b) Primary Outputs

In our view the proposed output categories do not provide sufficient focus for delivering the changes that Ofgem has identified in RIIO. The six output categories proposed are:

- Customer Satisfaction
- Reliability and availability
- Safe network services
- Connection Terms
- Environmental impact
- Social Obligations

RenewableUK wants to see an additional seventh output category namely

- “Facilitating the Low Carbon Economy”.

The category would be underpinned in the electricity sector by output measures. We proposed these should include progress towards and achievement of:

- The 2020 renewable electricity targets
- Decarbonisation of electricity by 2030

The key change highlighted by the Committee on Climate Change, DECC and many others is the decarbonisation of the electricity sector – coupled with a growth in demand caused by transferring activities such as heating and transport from fossil fuels to (low carbon) electricity.

We appreciate that network businesses themselves do not invest in low carbon generation or in energy saving measures for end customers. However, in our view there are many means by which network businesses can influence the carbon intensity of electricity without undue (or even any) discrimination. There will be ideas that network businesses will identify and develop through innovation incentives to decarbonise the sector. Although we do not in any way advocate measuring and rewarding each of these individual actions or behaviours. Such a multitude of measures would amount to micro-management. Each different incentive would also have to be constructed to account for varying geographical characteristics, resources, opportunities, voltages, etc in different networks and areas. Multiple measures would also lead to complexity and increased risk of perverse outcomes including conflicting incentives.

In our view network businesses will undoubtedly respond to low carbon and renewables output measures in many different ways in order to deliver once an effective incentive is in place.

#### c) Stakeholder Engagement

We are currently engaged in Environmental Stakeholder working group on the primary output and have requested an involvement in the Price Control Review Forum (PCRF).

#### d) Business Plan Guidance

The business plan guidance will need to have specific metrics for the planning and measuring of renewable electricity generation and the carbon content of electricity as well as demand forecasts. These measures should:

- Measure and forecast demand including reductions due to conservation and increases due to fuel switching (heat pumps and electric vehicles etc)
- Measure carbon intensity of electricity and the forecast decarbonisation;
- Measure the amount of renewable electricity and hence progress to 2020 targets;
- Consider electricity imports and exports to/from networks and their carbon content and renewable generation content (e.g. from Offshore transmission, distribution and interconnectors);
- Count and plan for renewable energy electricity (TWh) *as well as* connection capacity (GW);
- Account for renewable technologies individually e.g. Onshore Wind, Offshore wind, Hydro, Biofuels, Landfill Gas, PV, Wave, Tidal, Biogas.

e) Key Milestones

Our key concern is that Ofgem allow sufficient time to develop output measures, levels and incentives for Renewable 2020 targets and 2030 decarbonisation targets and 2050 low carbon targets under a “Facilitating the Low Carbon Economy” Output Category.

Yours sincerely,

A handwritten signature in dark ink, consisting of a long horizontal stroke followed by a large, sweeping loop that ends with a small arrowhead pointing to the right.

Guy Nicholson, CEng, MIET, MEI, Head of Grid for RenewableUK