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Date: 26th September 2012

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Dear Grant,

RenewableUK consultation response REF 104/12
RIIO-T1: INITIAL PROPOSALS FOR NGET

Summary

RenewableUK welcomes the opportunity to comment on Ofgem's proposals for National Grid. Our comments discuss the need for the RIIO-T1 price control to guide NGET towards playing a full role in the transition to a low-carbon economy, through a "least regret" grid development programme, generating confidence in the renewables industry that grid will be available for new generators to connect. We believe:

- **Gone Green should be the baseline scenario, behind which all of NGET's activities should be aligned.**
- **NGET should be given some allowance for RIIO-T2 preparatory work, given the need to deploy renewable generation to 2030 and beyond.**
- **It is helpful to have flexibility in introducing appropriate solutions that take account of visual amenity. The wider cost-benefit should be monitored.**
- **The innovation allowance should allow the TO and SO to innovate with confidence, and incentivise the roll-out of effective innovation.**
- **It is right to introduce the broad environmental incentive, but it should not be undermined by uncertainties within the main allowance.**

Introduction

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 660 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. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

The priority of the renewables sector we represent is to be able to connect to the network confidently, quickly, and at best value. As such, our response focuses on NGET, i.e: electricity transmission, not NGG.

Overall Package

Some of Ofgem's main concerns seem to be around the cost of borrowing and the efficiency of NGET activities. We have no informed view on this. It is also difficult for RenewableUK to assess the full implications for the renewables industry of Ofgem's proposals and associated reductions. For example, will it lead to delays in specific grid requirements being fulfilled and the connection of further renewable generation?

We do note however that Ofgem has qualified its "best view" of the Gone Green scenario by producing a baseline expenditure that is £0.6bn lower than NGET's proposal, to reflect the risk of new generation capacity not appearing.

This seems to send the wrong message. – At a time when one of the barriers to renewables deployment is availability of grid, another is negative media attention on the cost of constraint payments, and another is difficulty and length of time in obtaining grid planning consents, we believe it is important for NGET to be able to develop its plans with confidence, and engage on grid development projects early.

We note Ofgem's recent consultation on its approach to "Strengthening Strategic and Sustainability Considerations in Decision Making,"¹ in which it recognises wider considerations, and in our response to this consultation we have argued that it is important to incorporate wider short-term effects as well as medium-term and long-term effects. These effects include the cost of delays, uncertainty, and loss of momentum.

¹ www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=56&refer=Sustainability, July 2012

In summary, while we cannot comment on the amount of overall expenditure required, we encourage Ofgem to ensure that, through the RIIO-T1 process, it is leading a “least regret” grid development programme that furthers its principal duty of protecting the interests of both present and future customers and its duties to address greenhouse gas emissions and to promote sustainability; and that encourages NGET to play a full role in the transition to a low-carbon economy.

Preparation for RIIO-T2

We note that Ofgem has deducted an allowance of £462M for preparation for RIIO-T2 towards the latter years of the price control. Ofgem states “we consider that the potential level of such works would be fairly modest relative to NGET’s overall asset base.” In the absence of an outlook to 2030 by the Electricity Strategy Networks Group (ENSG), this is of concern for the renewables industry. Renewables projects are being developed on the basis of medium-term business thinking and an eye towards an ongoing roll-out of renewable generation to 2030.

Grid generally takes longer to build than a windfarm, which is why the renewables industry argues for early grid development. Re-openers and uncertainty mechanisms again are likely to cause delays, misalignment in NGET’s activities, and a loss in momentum that then feeds into barriers and uncertainties in the development further renewables projects.

It is worth noting also that the RIIO Handbook sets out the importance of looking beyond just one price control.

In summary, we believe there should be some allowance for preparatory activity for RIIO-T2.

SO-TO Interaction

We note that SO-TO interaction is not discussed in depth within Ofgem’s RIIO-T1 proposals. RenewableUK is responding separately to the RIIO-SO Incentives consultation, but we would like to point out the importance of taking a wider view of system costs. We would like to see a mapping of how investment in grid development will reduce constraints, thereby reducing constraint costs, leading to a

reduction in overall system costs, and ultimately a reduction in costs both to generators and to consumers.

Visual Amenity

We welcome the baseline allowance to deploy undergrounding technologies. We believe one of the difficulties that NGET has experienced in developing grid infrastructure has been the need first to “prove” that the cheapest option will not be acceptable. This is believed to have led to extensive delays, resulting once again in costs in the form of lost energy production, aborted projects, higher cost of capital, damage limitation in the planning process, etc.

It is right that NGET should still justify, with evidence, the infrastructure it proposes to build, but within the context of a progressive framework. The cost-benefit should be monitored, taking into account the wider cost of delays.

In summary, we welcome flexibility in the deployment of appropriate grid solutions.

Innovation Roll-Out

We note that Ofgem has reduced NGET’s proposals for innovation from 1% to 0.6%. We cannot comment on which figure is right, but would point out that this is a period of massive transformation in the electricity industry, where transmission assets need to be utilised to maximum benefit and opportunities for smarter components explored.

If we understand correctly, the allowance also covers SO innovation. In view of the major changes to the energy mix, we would expect the SO to undertake extensive innovation activities, from control systems to balancing activities to development of a market for services. Many of these should be incentivised as part of the overall allowance to reduce balancing costs, but a portfolio of innovation projects allows NGET to take a slightly less risk-averse approach to innovation before roll-out.

It is right that broad themes for innovation should be justified, with a demonstration of how projects will be targeted and prioritised. We would also add roll-out to this list. We would support an incentive for the early roll-out of effective innovation.

Rather than reducing the innovation budget on the basis of lack of detail, we would support an appropriately sized innovation budget, with the detail developed through stakeholder workshops and systematic stakeholder engagement by NGET.

Broad Environmental Incentive

Finally, we support the ongoing development of the Environmental Discretionary Reward (EDR). We believe this will have a galvanising role in aligning NGET's activities with the low-carbon agenda. However, at £4M p.a. across all transmission owners, the EDR incentive is not huge. It is important that the very thing that EDR is trying to achieve is not undermined by misalignment and disruption to a cohesive, strategic development programme, which could be caused by too many uncertainties in the RIIO-T1 allowance.

In summary, we support the EDR and encourage Ofgem to consider how in practice its aims can be supported and not undermined by decisions on the RIIO-T1 allowance.

Thank you for this opportunity to input. We would be happy to discuss our views further with you, and we look forward to working with Ofgem and NGET towards the implementation of the RIIO-T1 package.

Yours sincerely,

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Grid Policy Team