

ESB International Investments Ltd

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Cheryl Mundie  
Senior Manager – Transmission  
Ofgem  
70 West Regent Street  
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30 January 2009

Dear Cheryl,

**Initial consultation on enhanced transmission investment incentives –  
ESBI response**

ESBI welcomes the opportunity to comment on Ofgem's proposals on enhanced transmission investment incentives to support the aims of the Transmission Access Review (TAR).

***ESB International (ESBI)***

ESBI has been a developer in the GB generation market since the early 1990's and as such transmission access, and the current issues seen with it, is integral to our business activities. We currently have interests in the existing Corby power station, in the 850MW development at Marchwood due for commissioning later this year and have recently announced our latest 850MW development at Carrington, which will commission in 2013. We also currently have a number of live transmission connection applications and offers for CCGT sites at various locations across GB.

In addition to expanding our conventional generation portfolio, we are also seeking to expand our GB portfolio of renewable generation sites. All these developments are set within the context of a €22billion package announced by the ESB group to facilitate the transition to a low carbon economy.

***Summary of views***

This response provides our views on the initial proposals for enhanced investment incentives, contained in Ofgem's consultation. In brief summary, we strongly agree that a revised incentives regime will be needed to deliver the aims of the Transmission Access Review (TAR), particularly the earlier connection of new generation. Transmission Owners (TO) must be provided with a regulatory framework that allows them to invest both in a timely manner and with appropriate allowances for investment commensurate with the level of risk associated with that investment. We further agree with Ofgem's proposal to split the work to develop the incentives into two parts with initial focus being on short-term gains followed by the development of an enduring regime to facilitate appropriate longer term TO

investment. However, we have some concerns on the initial views provided in the consultation, mainly:

- A lack of clarity on the impact the proposals could have on transmission charges;
- Interactions with the RPI-X@20 project; and
- A disproportionate concentration on pre-construction works.

More detailed discussion of the issues and proposals raised in Ofgem's consultation is contained in the following sections.

### ***Incentives***

We welcome Ofgem's recognition that appropriate incentives are integral to the delivery of the goals of the TAR process. Ofgem appears to have recognised the current mismatch that is apparent between transmission works lead times and those experienced by generators. Shorter lead times for generation development often mean that signals to provide transmission investment may not be aligned with project and development milestones. Our experience to date has shown that this is having serious impacts on the ability of developers to contribute both to the Government's renewable targets and future security of supply requirements. Any proposals for introducing incentives that increase the scope for anticipatory investment are therefore welcome and needed.

As a developer, we also welcome Ofgem's proposal to redistribute risk between developers and the TO's. The current access regime is based on an asymmetric apportionment of risk, with developers carrying 100% of the risk of late or non-delivery of transmission works. Ofgem's proposal to introduce an incentive mechanism whereby TO's are rewarded or penalised relative to investment delivery is therefore welcome.

The revenue drivers included in the current regulatory regime provide some flexibility for TO's to request revenue allowances for investment not included in the price control baseline investment programmes. These are however linked to the TO's being able to show sufficient user commitment to trigger that investment. There are currently no provisions allowing TO's to invest in anticipation of significant future generation. Whilst we recognise allowing some anticipatory investment could perceivably increase the risk of stranded infrastructure assets, we feel that appropriate regulatory scrutiny should go some way to mitigating this risk. Further we are of the view that the risk of stranding is not necessarily as real as described in the Ofgem consultation. There is a risk, however, that TO's may not receive appropriate revenue allowances for anticipatory investment which in turn would discourage the TO's from undertaking it in the future.

### ***Short-term v Longer-term measures***

Ofgem has proposed that the development of an appropriate suite of incentives for the TO's to invest in a more timely manner should be divided between measures that can be developed and implemented in the short-term to accelerate known projects and those that would be required to facilitate the bringing forward of projects into the current price control.

Developers are seeing connection dates being offered from NGET of many years from the date of application as a result of delays to key transmission infrastructure works. Some of these works are known and may be brought swiftly forward to facilitate much quicker connection for developers. We therefore welcome any moves by Ofgem to seek ways of accelerating these works by overcoming the barriers within the current regulatory framework. We agree that this should be the area of concentration in the short-term and that work should commence as a priority.

We are of the view, however, that major gains could be achieved if projects that aren't in the current regulatory baseline are able to be brought forward. As Ofgem has identified, this will require work to develop a more enduring set of incentives beyond those required in the short-term. Although we agree that this should be done after the introduction of any short-term measures, we would urge Ofgem to start that development as soon as possible, as we are mindful that the current TPCR is now half complete and would want to achieve benefits before the start of the next price control.

An issue that is not discussed in the Ofgem consultation but could affect the longer term efficacy of any incentive regime is any requirement for TO's and developers to disclose details of future investment into the public domain. If such requirements force information to be made public at a premature point, this could increase yet further the risk associated with the investment (in particular planning risk) and affect the competitive nature of the generation market (particularly with regard site identification and selection for new build). We would therefore appreciate Ofgem's views on how they may mitigate this risk within any future incentive regime, in future consultations.

### ***Impacts on transmission charges***

In the Executive Summary to its consultation, Ofgem states that there is a possible £6billion of additional investment (to the £4billion already allowed in the current price control) which could be required to meet the Government's 2020 targets. We are concerned that the consultation does not provide details of how much of this investment could/would be accelerated and the impacts on transmission charges and balancing costs which would result. To enable more comprehensive appraisal of Ofgem's proposals, we would require far more detailed quantitative analysis of the possible revenue and charging implications of them.

### ***Interaction with RPI-X@20***

There are obvious interactions between the work on enhanced investment incentives for TAR and the work Ofgem will be undertaking as part of the RPI-X@20 project. The two pieces of work must, as far as is possible, be compatible and should not create mixed signals or uncertainty when considered as a package.

We have some concerns over the management of the interactions between the work on TAR-related incentives and any future work of the RPI-X@20 project. We agree that the two should be compatible but have concerns that managing this interaction could lead to delays in the delivery of effective enhanced incentives. In particular we would not want to see delays to the short-term incentive enhancements resulting from Ofgem awaiting definitive proposals being developed under the RPI-X@20 project. We would welcome further clarity on how Ofgem proposes to manage this interaction.

### ***Pre-construction works***

We recognise that works required at sites prior to construction are a key component in delivering timely and efficient investment (particularly large scale transmission works). Ofgem's consultation rightly identifies this and proposes to incentivise the TO's in order that some transmission works may be accelerated. Although we welcome this proposal we have concerns regarding it. Our first concern is that the consultation does not, nor any relevant industry document, specifically define what works are included "pre-construction" works. To enable respondents to provide a view on whether revised arrangements for such works

will be beneficial to the current timescales for connection and for the robust development of incentive arrangements, we feel that “pre-construction” works require better definition.

Further, we have concerns that disproportionate emphasis is being placed on arrangements for funding pre-construction works at the possible expense of other areas which could also result in hastening the connection of substantial amounts of new generation. We recognise that such works are integral to any future solution; however we are of the view that there could be other stages in the investment process which could also deliver benefit. We therefore call on Ofgem to ensure that all stages of the investment process are looked at and focus placed on those that would bring most benefits in terms of accelerating connection to the system.

### ***TO incentive proposals***

We agree with the TO’s proposals to use the current revenue drivers as a basis for any incentives which could be introduced in the short-term. This would provide a relatively sound basis for introducing new arrangements quickly and efficiently prior to more enduring proposals being developed. We would however require further information from Ofgem and the TO’s on both the mechanics of each incentive mechanism and the regulatory framework within which it would sit before a more complete view could be taken. Below, however are brief comments on the individual TO proposals.

#### *NGET*

In general, we agree with the principles underlying the NGET proposals. We note, however, that there is a significant asymmetry between the reward and penalty elements of the incentive. We recognise that some asymmetry in favour of the reward element for early delivery of risky projects may be appropriate but would require further information and justification before agreeing to the levels indicated.

#### *Scottish Power*

We generally agree with Scottish Power’s proposals but further work on the detailed parameters is required. Whilst recognising the risky nature of some of the investment which may be accelerated, we are of the view that the suggested upper rate of return of 10% is disproportionately generous. A rate of return similar to that provided under the Transmission Infrastructure for Renewable Generation (TIRG) scheme, with a sliding scale down for less risky investment, may be more appropriate.

#### *SHETL*

The principle proposed by SHETL appears sound, however it is difficult to respond in any detail as no parameters or examples are provided. We are also wary of Ofgem’s ability to provide detailed scrutiny of (possibly) large numbers of projects to determine efficient target cost and completion dates. Further, we would rather see the TO’s taking greater risk for actions during planning and build, rather than divesting this to Ofgem.

### ***Competition in transmission building***

We note and welcome Ofgem’s initial views on the possibility of introducing competition into the provision of transmission infrastructure. We are of the view that there are companies in the market for which this option could provide substantial benefits. However, we would only welcome the introduction of such arrangements if they resulted in discernable benefits in terms of cost and/or time to provide transmission connections. In future consultations, we would welcome

Ofgem's views on the licensable nature of any assets provided by any company other than a TO. In particular, we would welcome a view on whether those companies would require a transmission licence and the status of ownership upon completion.

### ***Conclusions***

As stated, ESBI generally welcomes Ofgem's initial views on how an enhanced set of incentives could be developed to underpin the delivery of the proposals within TAR. However, we have identified a number of areas which we feel require further, more detailed work before they are implemented. We look forward to Ofgem providing this in future consultations.

It should be stressed that, for developers such as ESBI, time is the critical factor. Cost savings are welcomed, however it remains that the key issue for many parties wishing to connect to the transmission system is the length of time they must wait for those connections. For customers to see the benefits of new, more efficient and diverse generation, any incentive regime must keep improvements in connection time as the key driver for its development.

Should you wish to discuss this response further please do not hesitate to contact me.

Yours sincerely,

**Michael Dodd,**  
GB Regulation Manager

By e-mail