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Monday 17<sup>th</sup> November 2003

Dear Tracey,

### **BWEA Response: Transmission Investment and Renewable Generation**

BWEA welcomes the opportunity to respond to this consultation and also welcomes Ofgem's pro-active approach to the issues outlined in this consultation.

BWEA was established in 1978 and is the representative body for companies active in the UK wind energy market. Its membership has grown rapidly in recent years and now consists of 290 companies including all grid-connected wind energy and every company with a lease to develop offshore.

Wind energy is widely recognized as an abundant energy resource indigenous to the UK. Most commentators accept that wind is likely to represent at the very least half of the Government's '10% by 2010' target because of the maturity and low cost of wind powered generation relative to other forms of renewable electricity generation technologies. Continued growth of installed wind energy generation capacity beyond this 10% 2010 baseline is almost guaranteed.

In representing the industry BWEA is therefore in a unique position to comment on the measures necessary to ensure that 'UK Plc' is able to deliver the requisite number of MW of installed wind and other renewables capacity by 2010.

We have structured our response to this consultation in accordance with the three specific views invited: specifically;

- i) **The appropriate principles to apply in considering how to tackle the issue of the recovery of costs associated with infrastructure investment to accommodate renewable capacity.**
- ii) **The TOs' investment forecasts and the assumptions underpinning them.**
- iii) **Potential approaches to adjusting the TOs' allowed revenues during the current price controls to allow funding of this investment.**



**i) The appropriate principles to apply in considering how to tackle the issue of the recovery of costs associated with infrastructure investment to accommodate renewable capacity.**

BWEA's experience is that the best and timeliest, solutions are reached when the network companies are sufficiently incentivised to play their part in implementing renewables. This is as opposed to an arrangement where such connections are expected of them but nonetheless do not fit well with within their businesses. Under such an arrangement a dissatisfied customer's only recourse in the event of delays or problems is to a lengthy determination procedure.

Consequently we very much welcome the approach implicit in this consultation which is, effectively, to ensure that connecting and accommodating renewables is a business opportunity for the transmission companies.

Ofgem's discussion on the rationale for treatment of renewables related investment expresses a reluctance to re-open the price controls once set as this "*could significantly reduce the incentives to outperform during the existing control and future controls*". The implied question arising from this is 'should the network companies have anticipated the growth in renewables'?

In terms of ability to identify a good business opportunity, BWEA considers that at the implementation date of the current price controls, it was fairly clear that renewables were set to play an increasing role in energy supply and that this would occur within the period of the current price control period. Nonetheless BWEA considers that it would be wrong to have expected the network companies to have included the levels of renewables related infrastructure now being discussed. This is not least because, as stated within this consultation, at the time the last price controls were set neither Ofgem nor the TOs, anticipated "*significant new investment to accommodate renewables*".

There were few concrete connection requests at the time and consequently it would have been difficult to predict the level and distribution of renewables. Wind energy is a modular technology which can be planned and constructed in shorter timescales than its conventional brethren. Thus planning for renewables at that time and, one could argue, within the current price control mechanism, was a risk.

It is conceivable then that even if expenditure had been included OFFER would have argued against it because of the pressure to reduce anticipated expenditure and because of the view that the companies were not in the business of taking significant risks. It is therefore BWEA's belief that the nature of the price control mechanisms is such that, in their current form, they cannot adequately capture expenditure associated with transmission capacity provision for renewable energy systems.

Since it would have been unreasonable to have expected renewables-related infrastructure to have been captured within the current price control mechanism it logically follows that this is a failing of the price control mechanism rather than anything else. Hence BWEA supports;

- 1) the principle of taking pragmatic, corrective action now, in advance of the next price control as not to do so would introduce delay and compromise the Government's renewable energy targets
- 2) giving serious consideration to a more fundamental review of the price control mechanism such that when the next price control review process commences realistic solutions are available to ensure that distributed generation can be dealt with on a more systematic basis in the future.

## **ii) The TOs' investment forecasts and the assumptions underpinning them.**

There are two issues here

- 1) a forecast of the amount of renewables that are expected to connect to the system
- 2) an estimate of the investment costs associated with connecting a stated amount of renewables

As regards the first point: This has been largely covered in our response to i) above hence we will not raise it again.

As regards the second point we have three comments;

- As we have already stated there are difficulties in forecasting the likely levels of renewable generation being brought on line during a price control period. As a result and in addition to having the TOs consult widely with industry in compiling those forecasts, it would therefore be prudent to subject the cost estimates to independent technical scrutiny (and in more depth than is presented in the TIWG report)
- Such forecasts should include a realistic assessment of the risk of stranded assets and this assessment should recognize that the concept of stranded transmission assets is not a new one
- Any forecasting process should be co-ordinated such that there is consistency in conclusions across all three TOs.

From the information that is presented in the TIWG report we make the following observations:

- Results should be revised to account for the possibility that there is no interconnector to Norway and also to reflect possible early closure of the nuclear power stations currently experiencing technical problems.
- The cost/benefit analysis of constraint versus reinforcement is possibly somewhat simplistic. We do not dispute that reinforcements will be required and should be set in motion at an early juncture. Nonetheless BWEA would certainly advocate the use of constraint mechanisms to facilitate connections in advance of reinforcement. The merits of constraint mechanisms should be analysed in their specific context and will include consideration of generation operating strategies and the costs/savings of constraining conventional versus wind generation.

## **iii) Potential approaches to adjusting the TOs' allowed revenues during the current price controls to allow funding of this investment.**

BWEA supports a pragmatic approach to facilitating the investment required as soon as possible. Ofgem concludes that a simple adjustment mechanism, to last until the next price control, will produce the most timely results. On this basis BWEA supports Ofgem's initial views on this with the caveat that any investment plans are subject to independent technical scrutiny.

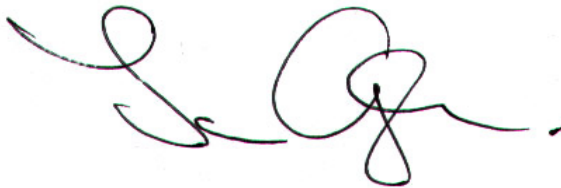
BWEA also asks that careful consideration is given to the extent to which investment is attributed to renewables as opposed to general development and replacement of the network. Clearly the Government's objective is for renewables to become a mainstay of our electricity supply system. While this necessitates changes to the network and costs over and above those which would have been incurred should existing power stations simply have been replaced, this 'business as usual' option would also have incurred costs – within and outwith those paid directly by consumers.

We note that there will be further impact on Use of System charges and consequently we would like the opportunity to review the results of this.

Presumably, because it is outwith its remit, Ofgem has not considered other sources of investment for Grid upgrade. These include the European Commission's Trans-European Networks (TEN) programme and Structural Funds. We also note the model proposed for Ireland which is to provide up-front National Development funds for strategic reinforcements which are reimbursed as and when projects connect. As a general rule we accept the principle of generators responding to appropriate cost signals where this is in the context of all costs being properly reflected in some way. But given that renewables are promoted in lieu of a perfect market, we are also supportive of strategic funds being made available where this helps to meet Government objectives.

If you have any questions please feel free to contact me at any time.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Glennie', with a stylized flourish at the end.

James Glennie  
Chair: BWEA Grid Forum  
British Wind Energy Association