Jonas Tornquist
Head of Electricity Transmission Policy
Networks Division
Ofgem
9 Millbank
London SW1P 3GE

24 September 2004

0141 568 3113

Dear Jonas,

Transmission Investment for Renewable Generation
Initial Proposals
August 2004

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

Alex MacKinnon
Regulation Manager
ScottishPower Energy Management Limited

Transmission Investment for Renewable Generation
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Response by ScottishPower UK Division

1 Summary

We welcome Ofgem's proposals for a funding mechanism to incentivise transmission licensees to fund efficient investment for renewable generation without unnecessary delay. ScottishPower UK Division (SP) believes it is clear that the Government's firm targets for the percentage of electricity to be generated from renewable energy sources by 2010 and 2015 and its aspirational target for 2020 can only be achieved if the potential renewable energy resources of Scotland are fully exploited. In order to meet these targets it is essential that sufficient transmission capacity is available to facilitate full access to the GB-wide electricity market and in particular that the reinforcements identified under the RETS programme are put in place as soon as possible.

While we support the mechanism classifying investments as 'baseline', 'incremental' or 'additional' we are concerned with the proposed initial allocation of projects between these categories. When categorising investments by the methodology chosen it is necessary to ensure that constraint costs are realistically estimated and compared to the efficient level of investment recognising the most efficient method for increasing transmission capacity, which will not necessarily involve new build.

Some of the assumptions used by Ofgem's consultants are we believe questionable. We question the assumption that the buyout price for RO generation rather than market data for ROCs represents an appropriate value in assessing constraint costs for renewable generation. We also question the assumption that capacity costs can be ignored in considering net constraint costs for fossil generation and the use of a capacity factor for wind of 20%.

Correction of these assumptions in the analysis could lead to some projects moving from 'incremental' to 'baseline' or from 'additional' to 'incremental' or even 'baseline'.

Response to Specific Views sought by Ofgem

a) Estimates of renewable generation

There is a high degree of uncertainty of likely levels of renewable generation to connect in Scotland by 2010. However, for the purposes of this analysis we support the use of 4GW as the central forecast.

b) Constraint costs

We question the assumption that the buyout price for RO generation rather than market data for ROCs represents an appropriate value in assessing constraint costs for renewable generation.

We also question the assumption that capacity costs can be ignored in considering net constraint costs for fossil generation and the use of a capacity factor for wind of 20%.

The use of more realistic assumptions for constraint costs and other parameters has a significant impact on the cost/benefit analysis of the schemes under consideration and

could result in a number of projects moving along the line from 'additional' to 'incremental' to 'baseline'.

c) Assessment and classification of projects

We believe that unrealistic assumptions have led to an unduly pessimistic classification. In particular we believe that the Scotland/England interconnector upgrade and the North East Ring, which are both very important to the development of renewable generation in Scotland and the North of England, should be classified as 'baseline' and we would hope that more realistic assumptions would have this effect.

d) Review of GB wide transmission security standards

Ofgem's consultants have put forward, without justification, the scenario in which all coal plant in Scotland closes as the most likely. This needs justification.

e) Identification of separate categories for baseline, incremental and additional capacity

We support the mechanism classifying investments as 'baseline', 'incremental' and 'additional'.

f) Initial categorisation of projects

We agree that the benefits of the Beauly-Denny and Sloy Area schemes clearly outweigh the costs and that these belong in the baseline category.

The England-Scotland interconnector upgrade and the North East Ring schemes are both vital to renewables development and would, we hope, be reclassified as 'baseline' with more realistic assumptions on wind capacity factor and constraint costs.

g) Incentives associated with the baseline category

While we agree that licensees should not benefit from any delays in investment created by the planning process it is important to recognise that there can be a significant delay between the licensee being aware the consent is approved and the consent being issued. The licensee will not order any long lead time items until there is certainty of cost recovery and thus to minimise delays cost recovery on such items should be allowed at as early a stage as possible.

h) Incentives associated with the incremental category

Work should continue on such schemes on assessing the level of capacity required and the required funding so that alternative approaches are considered and evaluated well before they are required to be agreed in detail. This would allow schemes to be advanced from 'incremental' to 'baseline' during the current price review period.

i) Incentives associated with the additional category

We do not think it will be possible to identify suitable simplistic revenue drivers in the short term for the likely necessary investments in Scotland. Reinforcements in Scotland are likely to be triggered by the connection of generation over a larger range of voltages than is the case in England & Wales.

j) Process for reviewing projects in future

It is important that the process is flexible enough to accommodate easily and quickly a movement of 'incremental' or 'additional' investment to 'baseline' as a result of progress with schemes without requiring further consultation and associated delay in the licensee's decision to proceed.