

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

24 September 2004

Dear Jonas

Transmission Investment for Renewable Generation – initial proposals: Scottish Renewables response

Scottish Renewables Forum (SRF) is Scotland's leading renewables trade body. We represent over 120 organisations involved in renewable energy in Scotland. Further information about our work and our membership can be found on our website.

Firstly, many thanks for the opportunity to respond to these initial proposals, which have moved forwards a long way in preparing the ground for development of new transmission assets in direct response to the growth of renewable projects within GB (and particularly in Scotland).

We are particularly glad that Ofgem has analysed the case for new transmission such as the proposed Beaulieu to Denny upgrade and accepted the clear case for investment in this area.

However, we would like clarification of how other proposals – particularly for links to island communities in Scotland – will be taken forwards. While there are certainly insufficient projects “on the table” to provide certainty required for investment in new transmission assets, there are many major uncertainties impacting on this issue that might frustrate such projects developing.

Obviously the lack of an available grid system to facilitate export acts as a barrier to investment in project planning and development. However other barriers, for example possible high transmission charges, also look likely to hold back development. In your consultation it is noted (pg 30) that future development of renewables projects in the Shetland, Orkney and Western Isles will be:

dependent on underlying economics of wind generation on Scottish islands assuming cost reflective transmission charges. Prospective developers would need to enter into longer term access arrangements to protect consumers from the costs of stranded assets.

Put another way, the economics of potential projects - and therefore interest in developing and requiring new transmission infrastructure - will be substantially influenced by decisions made within National Grid Company and Ofgem on transmission charges. Ofgem's analysis that



upgrades for island communities are not yet justified may become a self-perpetuating conclusion, rather than being the first step to making justification.

We are therefore concerned that the decision not to authorise investment at the current time because of too many uncertainties may become a self-fulfilling prophecy through separate charging decisions.

We welcome Ofgem's proposal to look at supporting investment through use of revenue drivers or longer-term commercial arrangements. Looking afresh at such issues will be important. However, other options, including standard network planning, looking at public support to underwrite some of the planning and scoping, or underwriting costs across GB should also be considered.

Certainly the undertaking to keep this under review is to be welcomed. However, we feel that further work is needed to set out clearly the longer term framework for ongoing transmission investment and development. In particular, we would like to see greater clarity about how transmission access (policing the queue) and investment decisions can be managed together, and a clearer understanding of how transmission charging will need to be reformed alongside to ensure it better reflect changes in the generation and transmission market.

This will be important if development of renewables in Scotland is not frustrated, or alternatively can only be achieved at substantially higher cost (which will ultimately be passed onto the consumer).

Even a comparatively straight forwards decision on investment such as Beaulieu-Denny has taken time for decision. On top of this must be added planning lead in times and construction, meaning that project length from initial discussion to delivery will have been a minimum of 7 years. Delays in this create uncertainties for developers which can jeopardise projects going forwards.

Projects within areas without sufficient capacity (particularly the Scottish islands) need clear signals going forwards. While it is important to ensure we do not have stranded assets of under-utilised transmission, the alternative is stranded project assets or unrealised projects that achieve planning permission but then cannot be built.

This problem is particularly acute if one looks at issues facing marine renewables. There are still a number of uncertainties into timescales of development and likely scale of operation for marine renewables. Looked at in isolation such uncertainties will prevent necessary investment in necessary grid infrastructure, and so frustrate some of these uncertainties being resolved through project development.

While we would not want to see a system that gives carte blanche to a generator to connect in any time, any where, any place, we would like to see a system that builds in greater certainty for developers and transmission operators. We need a regulatory system that ensures the queue for access is properly policed and gives greater certainty to developers in return for them taking on certain responsibilities. This in turn will give greater confidence to transmission operators and the regulator. The alternative is a system where the transmission operators are working more in opposition.

It is worth reiterating that Scottish Renewables remains concerned over the current restrictions on providing connection to the networks in Scotland. Delays are jeopardising investment in renewables projects, and also increasing the final cost of projects, as the cost of capital must increase. This is not good news for developers or consumers.

Whilst the proposed system reinforcements are being constructed, SRF believes that the network companies should be incentivised to find new ways of managing the existing infrastructure in order to enable additional connection of new generation. Such work might look to reform and promotion concepts such as “innovation zones” being proposed in distribution.

NGC Access Proposals

SRF is further concerned over NGC’s proposals for GB access as outlined in their recent consultation.

SRF believes that an alternative approach to providing access to the transmission system could be developed. We have outlined such a possible approach in our response to NGC’s consultation.

Put briefly, it is our view that all grid applicants should be provided with a connection to the transmission system. The System Operator should undertake to provide this connection within a defined timescale (we would suggest a period of between 24 and 36 months from the connection offer).

After this time has passed, the generator should be allowed full, firm access rights. If necessary, the SO should contract with generators and or demand to manage constraints either through the Balancing Mechanism or through balancing services contracts.

A copy of that response is available on our website* and we would welcome the opportunity to discuss this further with Ofgem.

In conclusion then, we support moves to send clearer investment signals for transmission investment, and in particular are heartened by decisions to authorise transmission investment for key parts of the grid such as the Beaulieu to Denny upgrade.

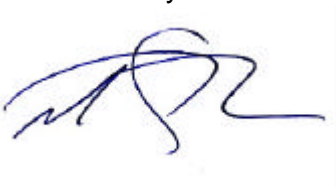
In Conclusion

However, we would like to see, as a matter of priority clarification on how Ofgem will take forwards the following issues once BETTA is in place on 1st April 2005:

- reform of access rights to better police the queue, introduce more certainty for all parties, and allow better management and planning of the grid
- reform of transmission charging to reflect the new emerging generation market where renewables make up a substantial proportion, and where it will be unavoidable for a large element of this to exist away from centres of demand. Key here is ensuring that decisions on charging do not indirectly make any decisions on transmission investment by removing initial demand

Once again, may we thank you for your time and for providing this opportunity to respond to this current consultation.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Maf Smith', is written over a vertical line.

Maf Smith
Chief Operating Officer

* see: http://www.scottishrenewables.com/data/reports/SRF_access_rights_response_04-06-04.pdf