



*taking care of the essentials*

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Our Ref.  
Your Ref.  
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Dear Jonas

### **Transmission investment for renewable generation: initial proposals**

Centrica are pleased to respond to your latest consultation on transmission investment for renewable generation. We welcome the positive steps being taken by Ofgem and the transmission licensees to accommodate the growth in renewable generation in Scotland. We look forward to this being extended to other areas of Great Britain where transmission reinforcement may be required.

There is a considerable amount of work being undertaken in different parts of GB to meet the Government's 10% target by 2010. Although regions outside of Scotland are, to some extent, dismissed by both Ofgem and their external consultants we are concerned that these areas should not be lost sight of in the rush to develop renewable generation in Scotland. Centrica, amongst other companies, are putting considerable time and resources into developing these sites but successful development requires co-ordination and co-operation from all sections of the industry and, in particular, from Ofgem and DTI. High-level, strategic planning, that takes account of GB wide patterns of generation and demand and does not constrain its focus to those areas that have already received connection agreements is essential.

The consultation and report by SKM use the number of connection applications and offers made and accepted as a measure of the necessity of investment. As an observation it is difficult, if not impossible, for a Round 2 developer to submit a connection application for its site offshore when the offshore transmission system has yet to be developed. We contend that those companies who have applied for, and won, agreements to lease from the Crown Estate for offshore wind farms have provided as much, if not more, commitment to develop a site as a developer who submits a connection application in Scotland. In both cases development may not happen and the developer could walk away at minimum cost. We are disappointed, therefore, that Ofgem and their consultants have not given more consideration to the development of offshore wind and the associated on shore reinforcement that is required and have instead, focussed on Scotland.

Centrica welcome the division of transmission projects into baseline, incremental and additional capacity. We believe this fairly reflects the relative importance of that capacity to the GB system. We note however that there is little detail on how the costs would be recovered from the additional capacity. Although Ofgem discusses the use of longer-term capacity agreements with generators we find it difficult to see how this varies from the current connection agreements the generator

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signs with the transmission licensees under the current system. It also remains unclear as to what benefit the longer-term capacity arrangements would provide for generators. The arrangements appear to require the renewable generator to underwrite the investment through longer-term contracts for capacity. This implies a considerable level of credit provision will need to be in place, something that may be outside of the capability for some smaller investors. In addition, at least part of the investment identified as falling into the additional category is reliant on either baseline or incremental capacity being completed. This suggests that a generator who contracts for long-term capacity could potentially be forced to wait for a considerable number of years before any capacity could become available.

Furthermore, if the mechanism for booking additional capacity is to be based on a system similar to that seen in the gas industry we have some fundamental concerns about how these costs are to be shared. Within the gas industry the costs fall directly on the shippers as the only parties who use the network. This is not the case in the electricity industry where the costs fall between generators and suppliers. There are currently proposals for the GB charging methodologies to move to a 90:10 division of costs between suppliers and generators. If this is implemented, and additional capacity is built, it appears inevitable that the greatest burden of cost will fall directly on the consumer; exactly the result Ofgem has tried to avoid. We contend that serious consideration needs to be given to how costs are targeted. We also note that to date, with respect to the incentive to invest, the relationship between the GB SO and the Transmission Asset Owners is ill defined. Although this may not be significant for the baseline capacity identified within this consultation it will become increasingly significant under BETTA.

Centrica have one other concern related to the division of capacity. The SKM analysis clearly shows that the case for investment in some areas is not proven. It would be inappropriate to incentivise transmission companies to build additional capacity, as defined in the Ofgem consultation, if the economic case was not proven. That is, the decision to invest should not be made on the basis of the number of connection applications made alone; other factors must be taken into account.

We note in SKM's report that they discuss in some detail the use of 'capacity credit' in assessing the need for system reinforcement. We suggest that Ofgem should take this opportunity to explore the possibility of revising the security standards, at least in the short term. This would allow more immediate connection of renewable generation in some areas and, arguably, increase the efficient utilisation of the transmission system.

In summary, we support and welcome the steps being taken to invest in transmission capacity for renewable generation in Scotland. However, Centrica continues to have some concerns relating to the incentives to invest and the cost recovery of transmission investment. In particular, we believe a significant amount of further work is necessary before any serious consideration of introducing longer-term contracts for generators for investment in additional capacity can be achieved. We look forward to seeing similar work to that carried out for Scotland for other strategic regions in GB.

We trust these comments have been helpful but should you wish to discuss any comment further please do not hesitate to contact me on 01753 431156.

Yours sincerely

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Contracts Manager

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