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Dear Mr Hunt

Transmission Access Review – interim report - Scottish Renewables' comments

Many thanks for the opportunity to comment on the interim report to the Transmission Access Review. Scottish Renewables welcomes the commitment from both Ofgem and Government to investigate possible changes to transmission access arrangements for renewable electricity generators.

Scottish Renewables, as the trade association for the renewables energy industry in Scotland, believes there is a need for a fundamental shift in the way the transmission network is managed in Great Britain so that the use of the existing and future capacity is maximised by generators in a way that reflects cost in a proportionate manner.

Please find initial views on the interim report published by Ofgem and DBERR on the TAR process.

We note that as the TAR interim report was being drafted the January 23 draft European Directive on renewable energy was being discussed. Assuming that the UK makes a full contribution to the 20% target, and given the recent announcement by the Secretary of State about the potential delivery of offshore wind in UK waters, it is by any measure a step change in the delivery of renewable electricity which is likely to require major investment in infrastructure in the next decade or so.

Given the elongated planning process transmission upgrades and investment have faced and currently face it is clear that proposals that deliver necessary fundamental change must be made and delivered very quickly otherwise the UK's renewable and climate change obligations will be at risk.

It is important that this statement is not seen as mere rhetoric but describes a highly possible scenario where there is a need for a 35% to 45% penetration of renewable electricity and the delivery of upgraded and new networks to deliver appropriate plant margin and security.

Furthermore, the Directive is different from the 2001 version in one of several crucial ways: it plans a step change in the targets to be achieved by the UK renewables industry and requires urgent investment in the grid now if the 2020 mandatory target is to be met. Article 14.2 in particular provides for a mandatory prioritisation of grid access for renewables. The final TAR report must bring forward concrete proposals for implementing change quickly and effectively if the requirements of the 2008 Directive are to be met. There are existing proposals within the regulatory framework to achieve change now and these must be used.

The interim report clearly leaves a number of issues unresolved (e.g. Access Reform) and relies on work being carried out by other programmes of review (Code Governance, GBSQSS).

The question for the industry is whether TAR is heading in the right direction and will it go far enough to introduce the reforms needed so that the renewables industry can play a full and effective part in a low carbon electricity sector.

These are our key points:

- Delivery of change is urgent and unfortunately the interim report does not provide confidence that it will be
- Concern that proposals on access reform will be unworkable
- Continued misunderstanding of what is meant by Connect and Manage
- TAR needs to understand the impact of Article 14.2 of the 2008 European Directive on the promotion and use of energy from renewable resources
- We welcome enthusiasm for capacity sharing
- The Scottish planning system is not considered in this paper despite its crucial role in delivery.

Summary of Scottish Renewables' contribution to the Call for Evidence

Last year Scottish Renewables made a full contribution to the Call for Evidence launched by TAR.

Its key points were:

- The transmission network is not fully and optimally utilised
- The industry seeks fundamental change rather than incremental change
- Auctioning of capacity is not the solution
- The silo structure of the industry codes does not allow joined up decision making, meaning potential solutions which have a number of effects across more than one code generally fall at the first hurdle

Summary of the Interim Report

The interim TAR report was published in January and provides an update on the TAR process ahead of publication of its final conclusions in May this year.

The **Introduction** explains what TAR is and highlights work that is underway or has been completed in this area, including TSORG and STAG.

Chapter 2 (Challenges for transmission access) notes that additional 50GW of contracted capacity may be added to networks in the next ten years, driven largely by the RO and that this creates issues around timely network investment.

It (2.15) muses whether GBSQSS is still fit for purpose.

Chapter 3 (Access Reform) sets out the criteria for a fit for purpose transmission network: timely and efficient connections to an efficiently run transmission network. It reiterates a common theme that a lack of appropriate information from generators, in terms of when and what will connect and when they will cease use of the networks, means that a number of assumptions have to be made regarding future use of the transmission system.

It looks at the three models that have been suggested to govern access to the transmission system: incremental change; connect and manage; and, auction capacity.

The interim report also introduces the 'flexibility' model put forward by National Grid (3.14) which allows capacity sharing.

A discussion of the models (3.19 to 3.35) indicates a desire to find the best elements of each model and attempt to knit them together (Poyry report, Appendix 1). In addition modelling of the impact of more wind and decommissioning of plant (3.36 to 3.44).

This section concludes (3.45 to 3.50) that change is needed and that renewables generators will have bankable transmission rights. TAR's vision is one where there is increased sharing by 2020.

There is confidence by TAR that reforms will deliver results and that a 'holistic' approach to assessing the components of each access model could lead to an appropriate settlement.

Chapter 4 (Delivering and operating infrastructure) summarises responses to the call for evidence, TSORG, STAG and indicates other areas of work. It notes consultation on GBSQSS (4.8 to 4.12).

Timely network investment is considered (4.13 to 4.18). TAR complains again about the quality of information it has from the intentions of project developers and the effect this has on its planning. TAR also believes that investment in infrastructure can be better targeted to facilitate renewable generation. It does not accept that strategic investment should be signed off by Ofgem ahead of need as it will divert important resources.

System operation (4.19 to 4.25) is being analysed and TAR has asked transmission operators to consider initiatives that would provide greater operational flexibility and the costs and benefits of that. This is to be welcomed.

Chapter 5 (Initial recommendations) sets out proposed short and long term changes. It outlines the principle problems (5.2): the current 'queue' and management through a first come first serve basis of TEC allocation; slow planning decisions (the paper makes reference to English planning reforms but not to Scottish reforms); little

incentive for TEC holders to release capacity that is not needed; code governance; and, quality of information.

These issues have been split by TAR between Access Reform and Delivering and operating infrastructure.

Access Reform is discussed from paragraphs 5.5 to 5.7. TAR concludes that funding is generally available for network investment but that poor strategic planning means that investment is not made quickly enough. That better information could lead to quicker progression for connection for projects with planning and finance in place. It says that more sharing of capacity should be encouraged and that enduring arrangements should be put in place to make this happen. Finally, it recognises the need for capacity to be ready in time for new projects to connect and it suggests incentives and penalties for success and failure should be introduced to transmission companies.

Delivering and Operating Infrastructure is discussed from paragraphs 5.8 and 5.10. It notes the STAG process and review of GBSQSS. Its initial conclusions are that these tackle the principle issues but adds the introduction of User Commitment will improve matter in these areas.

TAR discusses implementation (5.11 to 5.13) and it says that legislation could be a recourse if there is not sufficient progress from the TOs. It recognises that Code Governance is poor and that if Ofgem's review does not deliver improvements quickly enough then legislation could be used (the obverse is true: if legislation is slow then other techniques will be utilised).

Chapter 6 (Implementation) discusses how the changes can be implemented and discusses the merits and demerits of the current methods and potential legislation. Much of this is a reprise of the Code Governance Open Letter.

Conclusions

Urgency

Scottish Renewables acknowledges the timeline which will see publication of TAR's final recommendations in May 2008. However, the implementation of any of those recommendations may prove time-consuming and this gives cause for concern to the renewables industry in Scotland. Given that, we urge Ofgem and DBERR to drive through the reforms that are needed to deliver its renewable electricity objectives as quickly and as equitably as possible and to outline a timeline of rapid implementation post TAR report publication. Anything less is likely to jeopardise the delivery of wider Government objectives.

GBSQSS

Scottish Renewables acknowledges the review that is underway and will play a full part in the process.

Connect and manage

The TAR summary (3.7) of connect and manage is not an accurate description. The reports authors continue to characterise connect and manage as unfettered access to the system. Cap143, and others, demonstrate that this approach is based on access

following the consent of transmission infrastructure and also allows time limited and controlled non-firm access which minimises risk to security but is bankable for generators. If the TAR team continue to characterise this model wrongly it will undermine credibility in TAR's final conclusions.

Access Reform

On the face of it the desire to identify and knit together the best of each of the models previously discussed seems sensible but further analysis would suggest there is significant risk of an overly complicated system that would not be the sum of its parts.

Scottish Renewables continues to argue for a responsible connect and manage model and feel that it would be a manageable approach to access issues. However, there seems to be an institutionally negative reaction to connect and manage because there is an erroneous belief that cost of constraints are unquantifiable and potentially significant and that it is inappropriate to consider the increase in revenue from increased TNUoS charges (we appreciate this is being considered in the Code Governance Review). We strongly urge Ofgem and DBERR to look at CAP143, 148 and 149 and consider whether these suggest unfettered access or a limited speeding up of connection that would potentially have major beneficial impacts on wider government objectives of delivering renewable electricity.

We note in Appendix 4 (Summary of responses) the near universal rejection of the auction model but that TAR still considers there to be some benefit from this. Further, we note the NGET Open Letter on Queue Management and its interest in allowing the market to decide which projects can plug gaps that appear in the 'queue'. The renewables industry in Scotland continues to be strongly opposed to both proposals and urge NGET, DBERR and Ofgem to clarify its thinking on this.

System operation

The GBSQSS review is welcome (4.19 to 4.25) and we refer to the responses we have made on this issue.

Timely network investment and front end investment

We are not clear from this section whether Ofgem will allow early planning and design work ahead of connection where a strategic need has been identified (for example in the Scottish Government's National Planning Framework 2)? Or is this simply concern about stranded assets? If it seeks to discourage front-end work this would be an unfortunate conclusion that does not balance the costs of delay that the industry has experienced with Beauly - Denny and the North Yorkshire line with investment needed to get a project through planning. TAR muses that there might be options to incentivise early delivery and penalise late delivery but does not expand its thinking. Scottish Renewables recommends that this area is explored more and greater flexibility in incentives be considered. One of the benefits would be to help resolve the problem raised in paragraph 5.6 (first bullet point) of making quick investment in transmission networks.

The January 23 proposed European Directive on renewable energy comes into play here also. There is likely to be a strong, political driver for a significant step change in renewable electricity delivery in the next 12-years and planning needs to start for this. At present delivery of upgrades is sequential and therefore time-consuming. It seems to the Scottish renewables industry that appropriate parallel delivery of front end

design and planning will at least mean that Transmission Operators need only wait for sufficient User Commitment before commencing works. The trigger for this ‘early work’ would itself be clear and set out by the regulator (e.g. identified by the Secretary of State as a ‘national strategic development’).

Impact of Article 14.2

There is no discussion of Article 14.2 of the *Directive of the European Parliament and the Council on the promotion of the use of energy from renewable sources*.

This is perhaps understandable given the timing.

The Directive tries to balance the need for secure systems and a positive regulatory framework for the connection of renewable projects. It states that system operators “*shall* also provide for priority access to the grid system of electricity produced from renewable energy source”.

The mandatory language used in the Directive is notably stronger than its predecessor, creating a positive obligation on member states. Scottish Renewables believes that this shifts the balance from security towards environment (but not entirely to the consideration of environmental issues) and that there is a risk that TAR has not fully considered the impact of this Directive and the effect of any challenges if it is considered that access regulations do not deliver “priority access”.

The Directive therefore exerts further pressure for the TAR to be concluded decisively and the spring consultation document must contain real, firm options for implementing change. We suggest some potential quick wins below which can be achieved within the existing regulatory framework.

Quick wins

As the interim report recognises at paragraph 5.12, legislation cannot be ruled out as a means of delivering co-ordinated change to transmission access arrangements. However, we are of the view that a number of the tools currently at Ofgem and BERR's disposal could be used to tackle some of the issues raised in the TAR and think it critical that spring consultation contains concrete proposals.

For example, the Authority could consider seeking modification of the non-discrimination provisions in the transmission standard licence conditions so as to require more favourable treatment towards renewable generators as a class. In that vein, it may be supportive (but not essential) for the Secretary of State to issue the Authority with environmental and social guidance under section 3B of the Electricity Act that requested priority access be given to renewable generation. As we’ve noted the full implications of the EC's new renewables directive (particularly Article 14.2) have still to be picked up and addressed in TAR and we would suggest that pursuing such licence modifications may be one way to do that.

As linked consultations such as the GBSQSS recognise, the creation of any such broad-brush provision, which favours renewable generation, has to be coupled with provisions that protect, amongst other things, the security of the system. The Authority may also therefore wish to consider creating new 'relevant objectives' for NGC's connection and charging methodologies that would allow it (indeed could require it) to

adapt those methodologies in order to provide the commercial incentives mentioned in the interim report whilst ensuring that it is properly able to be efficiently funded.

We would also re-iterate our comments above regarding the importance of considering CAP143, 148 and 149 as quick and effective ways of moving the transmission access arrangements in the right direction.

Quality of Information

Scottish Renewables recognises the need for high quality information to help manage access and use of transmission networks. We have some capability in this area, as does the BWEA, and we would like to offer support to NGET. However, the resource implications of maintaining an up to date database of projects, locations and installed capacities and indeed anything else that NGET would find useful can be significant. Given this issue is a recurring theme in TAR might it be appropriate for Scottish Renewables, BWEA and NGET to consider ways in which closer working might help in alleviating problems in this area?

Legislative Powers

The issue here for the industry is that Government interference in markets is generally unwelcome unless wider Government policy is not being delivered by the market place and where the regulator and the SO struggle to reform codes and licenses (hence TAR and other reviews).

The industry's response to this question is partly predicated on the acceptability of conclusions to TAR, GBSQSS and code governance.

Further advice from the industry is required, however, it may prove worthwhile to sanction limited powers with triggers of use clearly defined, especially where European and UK national energy policy is perceived as being blocked or hampered by the rules and regulations that govern transmission access and charging.

The Scottish Planning System

TAR does not consider the Scottish planning system and its impact on delivery of new transmission infrastructure. It hopes that reform in England and Wales may have a positive effect but does not recognise that the Scottish National Planning Framework 2, which identifies grid upgrades to support renewable energy as a national development and is accompanied by a statement of need, could have a similar effect. It would be helpful for TAR to do so as the Scottish renewables industry welcomes the Scottish Government's commitment and this should be matched by TAR.

Scottish Renewables is well placed to advise on this if the TAR team wishes to contact us.