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Dear Bob and Duarte

Transmission Access Review – Interim Report

Scottish and Southern Energy (SSE) welcomes the publication of Ofgem and BERR's Interim Report on Transmission Access.

We support many of the high-level principles that are set out in the initial conclusions of the Interim Report. In particular, we agree that the current "first come, first served" approach to allocating transmission capacity to new users is inefficient and inflexible; and we support the principle that transmission capacity should be allocated to those that are best able to use it. In addition, we welcome the acknowledgement in the Interim Report that capacity auctions are not supported by the industry, and would not provide the long term certainty over grid access that is necessary for prospective generators to gain financial backing.

In our submission following the Call for Evidence, we argued that the electricity industry could quickly and effectively make a number of strategic changes to the transmission access regime that would support and, where necessary, promote Government energy policy. We continue to believe that this is the case and, as described below and in the annex to this letter, now have a clearer view of what is required.

In January this year, the European Commission published its draft Directive on Renewable Energy and proposed that 15% of all the UK's energy should come from renewables by 2020. The Government has indicated its support for the draft Directive. It is thus becoming increasingly clear that the UK is moving towards extremely ambitious and challenging targets, both in magnitude and time, for renewable generation. In the context of these targets, this review of transmission access provides

an important opportunity to ensure that the access regime complements and supports Government policy and does not act against it.

Key to the industry's ability to meet the Government's goals to reduce the UK's carbon emissions is certainty over access to the transmission system. Without certainty over access, prospective generators will not be able to gain project financing and, without certainty from generators, network businesses will not be able to sanction investment in the system to provide access. The result – where we are today – is stalemate.

This stalemate can, in our opinion, be reversed quickly and effectively through implementing the following two suites of measures:

- **To address the uncertainty faced by prospective generators over access to the transmission system.**
  - National Grid should be obliged to provide all applicants with a firm connection date that is no later than four years after that applicant makes a strong user commitment.
  - As part of this connection process, prospective users of the GB transmission system should be required to provide a strong user commitment.
  - Charging for access to and use of the transmission system should be cost-reflective, stable and predictable.
- **To address the uncertainty faced by network owners when planning investment in the transmission system.**
  - There should be an increased role for economic justification in the planning standard for investment in the networks.
  - Incentives on the GB System Operator (GBSO) should be aligned with the planning standard to ensure that an appropriate balance between operational and investment costs is maintained.

Primary legislative change is not required to implement these measures. Rather, what is required are minor changes to the transmission licence and consequential amendments to industry codes (largely to the System Operator – Transmission Owner Code, STC). As a consequence, these measures could be implemented quickly, cheaply and have almost immediate effect.

I would be happy to meet with you or your team to discuss our views in more detail. Alternatively, if you would like to discuss any of the points raised in this letter then please do not hesitate to give me a call.

Yours sincerely,

Rob McDonald
Director of Regulation

To address the uncertainty faced by prospective generators over access to the transmission system

National Grid should be obliged to provide all applicants with a firm connection date that is no later than four years after that applicant makes a strong user commitment

Under the current access regime, prospective generators have no certainty over when access to the transmission system will be available. Indicative connection dates offered in the bilateral connection agreement are, in many instances, 10 years in the future and subject to change in response to, for example, delays in the planning process. Without this certainty over when access will be available, generators cannot sensibly progress their planning applications and will not be able to gain project financing. This has resulted in the current situation whereby a long 'queue' of prospective generation has built up with few projects actually able to progress and proceed to connection.

To remove this obstacle, we believe that the GBSO should be obliged to provide all applicants with a firm connection date. This date should, in the first instance, reflect the length of time it takes for the physical connection to the GB transmission system to be built; the so-called H1 or local infrastructure works. For most users, construction of the necessary local assets can be achieved within four years of the Transmission Owner beginning work. Hence, it appears reasonable that the GBSO should be obliged to offer a firm connection date that is no later than four years after an applicant makes a strong user commitment (discussed below).

A physical connection to the grid could be achieved for most, but not all, users within four years of user commitment. For some users the connection design may be particularly complex (for example, for very remote sites) or there may be planning delays; hence a four year connection date is not always possible. In these circumstances, the GBSO should be allowed to delay the proposed connection date. As the physical assets to provide the link between the power station and the grid will not be there, it is not reasonable for access rights to be offered. This would mean that users would remain exposed to some design and planning risk for necessary local works but, importantly, users would not be exposed to risks associated with the availability of capacity on the main interconnected transmission system (this risk staying largely with the Transmission Licensees).

From the perspective of the generator, a firm connection date would allow it to progress its project. If there is a dispute about the terms of the bilateral connection agreement offered by the GBSO (including the proposed connection date) this would, as is currently the case, be referable to the Authority for determination. The inclusion of a clear timetable for the construction of transmission assets as part of the construction agreement, that could be monitored through regular tripartite construction meetings, would allow efficient, co-ordinated construction of the power station and transmission infrastructure.

Implementation To implement this proposal would require a change to the transmission licence that places an obligation on the GBSO to provide all applicants with a firm connection date that is no later than four years (or other such time period directed by the Authority) after that applicant makes a strong user commitment. The only condition to that firm connection date would be that the local connection assets are available by that connection date. These licence changes would require consequential changes to the STC.

As part of this connection process, prospective users of the GB transmission system should be required to provide a strong user commitment

In order to identify those applicants that have the greatest probability of progressing their projects, a signal is required which, we believe, should take the form of a strong, but proportionate, user commitment. As described above, the decision of the applicant to provide user commitment would be the trigger for the GBSO to offer a firm connection date that is no later than four years hence. Many applicants would opt to make this user commitment once they have realised the necessary consents, but this approach would not preclude applicants seeking to progress their project from making this commitment earlier.

The user commitment should be clearly set out in National Grid's Charging Statement. We believe that the user commitment should be a flat £/kW tariff that applies across GB and does not vary once the commitment is made. A fixed £/kW tariff is preferential to a variable charge (such as that based on the Transmission Network Use of System (TNUoS) tariff) because, for example:

- It would not discriminate between any persons or class or classes of persons;
- The user commitment could be set at a sufficiently material level to ensure that only those who have serious projects come forward;
- It would not be a barrier to entry, unlike the current final sums liability approach and possible alternatives based on TNUoS; and
- It would provide a stable, transparent signal of the commitment required over project development timescales, again unlike the current final sums liability approach and possible alternatives based on TNUoS.

For applicants seeking a new connection, the user commitment should apply as an underwriting obligation for the period up to connection.

The principle of users of the GB transmission system making a commitment has been the subject of much industry debate, not least in relation to the proposed amendment to the Connection and Use of System Code (CUSC) CAP131 – User Commitment. We continue to believe that CAP131 is overly complex and bureaucratic and, importantly, would not be effective without the link to a firm connection date. Furthermore, the proposed dependency on the inherently volatile and unpredictable TNUoS tariff undermines any potentially certainty that could be gained through the CAP131 approach.

Implementation To implement this proposal may require changes to Standard Conditions C4, C5 and C6 of the transmission licence that include provisions for connection charges and use of

system charges. National Grid does have the vires to implement this proposal without changes to its licence, but changes may be required to provide clarity. Consequential changes may be required to the CUSC.

Charging for access to and use of the transmission system should be cost-reflective, stable and predictable

In our submission following the Call for Evidence, we argued that the current charging regime is undermining Government policy by sending a signal *not* to invest in new generation in those areas with an abundance of natural renewable resource. For potential investors to be willing to commit to the significant investment that is needed in new generation capacity, a predictable and transparent charging regime is required that, importantly, is stable in the medium to long term. We identified a number of necessary actions to address this including:

- Zero charge for generation using the transmission system; and
- Reconsideration of a zonal losses scheme and/or a "shallowish" connection charging methodology as mechanism(s) to deliver a locational charging signal to generation; and
- A new approach to charging demand for use of the transmission system.

We continue to believe that these changes are essential. If transmission charging is not addressed in the immediate future, then any other changes to the access arrangements will have little or no effect.

Charges for generation should comprise a locational signal (through a zonal losses scheme and/or a "shallowish" connection charging methodology) and a commitment signal (through user commitment). As a consequence of implementing this new charging regime, the existing TNUoS charge for generation should be removed or, as an interim measure on the 'glide path' to zero, aligned as a flat £/kW that is the same for all generators. To ensure that the principles of the British Electricity Transmission and Trading Arrangements are retained, generators should also remain liable for a share of balancing costs on the current basis of a flat £/kWh tariff that applies across GB.

Implementation To implement this proposal may require changes to Standard Conditions C4, C5 and C6 of the transmission licence that include provisions for connection charges and use of system charges. National Grid does have the vires to implement this proposal without changes to its licence, but such changes may be required to provide clarity. Consequential changes may also be required to the Balancing and Settlement Code and CUSC.

To address the uncertainty faced by network owners when planning investment in the transmission system

There should be an increased role for economic justification in the planning standard for investment in the networks

The combination of user commitment and firm connection dates will provide a clear signal of the need for transmission capacity from new users; hence allowing the Transmission Licensees to undertake more timely and informed network planning and investment decisions. This will also strengthen the 'need case'; an essential element of an effective planning process.

In some instances, for example on radial networks, investment in the transmission system may not prove the most economic option for connecting new generation: the cost of reinforcing the network may outweigh the cost of additional balancing actions on the system. In other instances, based on the volume of committed users, the planning standard may show a clear case for investment. Further, it may be the case that system reinforcement proves to be economic when users are committed to only 50%, 30% or even 10% of the capacity released. In such circumstances, we would not need to wait, as we do now, for 100% user commitment before placing the order to reinforce.

Once investment is triggered, there is no evidence that the Transmission Licensees have not delivered that investment in a timely manner. The key issue, we believe, is strengthening the trigger. However, to the extent that any concerns do exist about delivery, it should be possible to strengthen the existing price control arrangements to provide stronger incentives as to construction (but not planning) risk.

Implementation No changes are required to implement this proposal; the GB Security and Quality of Supply Standard already includes guidance on economic justification (although we note that work is ongoing on the application of this guidance in relation to the design of generation connections).

Incentives on the GBSO should be aligned with the planning standard to ensure that an appropriate balance between operational and investment costs is maintained

One possible consequence of implementing the proposals we describe would be an increase in overall system balancing costs. This would be as a result of new generators connecting to the network before the main interconnected transmission system is reinforced. Such an outcome may be the result of a decision, made in accordance with the guidance on economic justification in the planning standard, that ongoing system balancing was the most economic and efficient means to accommodate the new generation. It is important that the incentives on the GBSO recognise the balance between operational and investment costs in the efficient development of the transmission system.

The current GBSO incentive scheme has, in our opinion, an unhelpful focus on constraint costs, which is in direct conflict with current energy policy and the drive to bring on more renewable energy. Whilst this may have worked historically, going forward we believe there needs to be a change in emphasis to ensure that National Grid is actively rewarded to both connect renewable generation and utilise the existing network capacity to its full potential. Therefore, whilst it is right that NGET remains incentivised on its constraint costs, we believe that it is appropriate to relax the target and widen the

focus of the incentive scheme. A key part of a widened GBSO incentive scheme would be to recognise the economic justification in the planning standard, and that there is (for some parts of the network) a trade-off to be achieved between operational measures and new investment.

Implementation No specific changes to existing industry arrangements are required to implement this proposal. This could be implemented through the GBSO incentive scheme which is renewed, based on agreement between National Grid and Ofgem, on an annual basis.