

6th October 2009

Cheryl Mundie
Senior Manager – Transmission
Ofgem
3rd Floor, Cornerstone
107 West Regent Street
Glasgow G2 2D

transmissionaccessreview@ofgem.gov.uk

Dear Cheryl,

TAR – Consultation on enhanced transmission investment incentives

The REA is pleased to be able to comment on this further consultation on enhanced transmission investment incentives. As you are aware our members work on all types of renewable power projects connected at both transmission and distribution levels in all parts of Great Britain. We have commented on all the previous consultations on this topic.

Previously we have commented that the basic assumption must remain that the transmission licensees will comply with their statutory duties to develop an efficient and coordinated system etc. and the Ofgem will in accordance with its duties allow them sufficient funding to do this. We have also said that most of the investment under consideration is not “ahead of need” – it needs to be done now. We will not elaborate again on these points in this response. Please refer to our earlier submissions.

We now address the specific questions that you have asked.

Chapter 2

Question 1: Do respondents have any comments on the information provided on the projects nominated for funding consideration?

We think it inappropriate for us to comment on specific projects. We are rather disappointed that Ofgem feels the need now to get consultants to review the results of the ENSG study. Ofgem was fully involved in the process and if it wanted an independent review of the work it could have commissioned this six months ago.

Question 2: Do respondents agree with our proposed approach for taking forward the assessment necessary for consideration of all requests for further funding during the current price control period, including SHETL’s requests in relation to Knocknagael and the Shetland connection?

Again, without commenting on the detail of this specific reinforcement, we agree that if part of a “generic bundled reinforcement” of a transmission boundary which is used

as a revenue driver can now go ahead, the cost of this part of the bundled boundary reinforcement needs to be separated from that of the work that cannot yet proceed.

Chapter 3

Question 1: Do respondents consider that we have appropriately summarised the views of respondents to our December consultation?

We can obviously only speak about the views that we expressed at the beginning of this year and do not feel that they have been misrepresented.

Question 2: Do respondents have any views on our proposed funding framework based on categorisation of projects in terms of risk profile and urgency for clarification of funding?

It is clear that at the moment the most important parameter is the urgency of the work. Therefore work that is required to start shortly must be dealt with most urgently. In principle it might be useful to categorise projects by risk profile as well. However, this may be appropriate to the “final” arrangements timed for say TPCR5 and the outcome of the RPI-x@20 project. One needs to beware of trying to be too sophisticated / having too complex arrangements, for what in general are tasks that are needed only one or two years ahead. This is because we would expect such tasks to be either actual construction (in which case there would be a fair amount of certainty about need) or relatively low cost pre-construction works.

Question 3: Do respondents agree that our work should focus on projects which are planned to commence construction within the current transmission price control?

Relatively low cost pre-construction work for projects likely to go into construction further ahead than this should not be neglected. However the larger sums will be for projects going into construction in the current price control period which are not yet allowed for and because of the materiality of this it should receive the bulk of the effort.

Question 4: Do respondents have any views on the appropriate scope and form of funding for projects with different risks?

As we said earlier, we think that the majority of projects with substantive funding i.e. about to go into construction will be relatively low risk. We do think that different sharing arrangements for projects for which there is different risk may be appropriate but this will not be straightforward to manage. We therefore think that proper consideration of this is a matter for TPCR5 and the RPI-x@20 project.

Question 5: In terms of scope of funding, do respondents have any views on whether our funding consideration should include funding of pre-construction work in projects not due to commence construction within the current transmission price control? Do respondents have any views on the options for provision of such funding?

If pre construction work is necessary now, then it should be funded regardless of when construction would start.

Question 6: Do respondents have any views on the appropriate “building blocks” for a funding mechanism and the principles which should be adopted in the development of funding mechanisms for the projects nominated for our consideration under TO incentives?

An approach similar to that adopted for the TIRG work would seem most appropriate.

Question 7: Do respondents have any views on the interactions with the RPI-X@20 project or adoption of a competitive approach for the projects nominated by the TOs?

Whilst in principle a competitive approach is a good thing it should not be allowed to delay projects that are urgently needed. We think that the “enduring arrangements” for providing TO incentives should be developed as part of / after the RPI-x@20 project.

Chapter 4

Question 1: Do respondents have any views on our proposed approach for taking forward our work on TO incentives further measures?

We are happy with the proposed way forward.

Question 2: Do respondents have any views on the potential adoption of an accelerated process for certain licence changes?

We are neutral on this. The amount of money involved should be less than the uncertainty. Therefore not recovering additional income until a year later should not result in a significant financing cost.

Question 3: Do respondents have any views on the options for alignment with the outputs of the RPI-X@20 project?

Our view is that proposals to fund work needed in 2010/11 should not be delayed until the RPI-x@20 review is completed. As you have said this may mean defining break points when the funding of a project transfers from the “interim” to the “final” arrangements, but this is preferable to delaying any necessary work.

We hope you find these comments useful. If you would like to discuss them further please feel free to get in touch.

Yours sincerely,
Gaynor Hartnell
Director of Policy, REA.