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Dear Hannah

Timely connection to the electricity transmission network

The Renewable Energy Association gives below its response to this consultation. As you know our members work on all types of renewable power and heat projects including many electricity generation projects that are dependent on the transmission system. Timely connection to networks is important – indeed in some circumstances more important that ought to be in a world with rational legislation and rules.

For example in terms of distribution connections some of the cut off dates for specific levels of feed in tariffs are at risk of being unachievable by good projects because of the time taken to establish a connection. Thus connection timescales for a project may mean that instead of achieving a feed in tariff of x, it can only achieve a significantly lower level, possibly making the project unviable. Without making any assumptions about how the current electricity market reform process may pan out it is possible that many transmission connected low carbon projects may suffer the same fate i.e. if they are not connected by a set deadline they will lose a significant proportion of their income, possibly killing the project. We are not against the principle of arrangements where prices paid for electricity from new technology fall over time to take advantage of advances in the technology economies of scale etc. It is unreasonable however for these deadlines not to take account of connection timescales and indeed for the generator's project to be at risk if the transmission connection does not proceed as expected when the go ahead for the generation project is given.

We recognise that there are no easy solutions to the issue. Any transmission infrastructure that turns out not to be required still has to be paid for ultimately by

the electricity customer (whether it is directly or through a higher wholesale electricity price or through a higher rate of return given to the transmission owners in return for them taking a risk). We also recognise that risks associated with "speculative" transmission investment are generally greater for enabling works than wider infrastructure as the investment is more local.

Having said that, there are things that could be done to make connection faster. For example it should be possible to reduce the three month period for making an offer under connect and manage as it should not in general be necessary for the TOs to plan the infrastructure reinforcements as part of making a connection offer. (Whilst apparently currently they still do this there does not appear to be any logical reason why this needs to be the case). In addition there is no reason why the liquidated damages clauses in construction agreements are always (in our knowledge) set to zero. In our view there should be flexibility for generators selecting their own compensation packages, which would probably entail a premium. For example they may decide on a modest level of LDs for a period with a significant increase if crucial dates are missed, for example affecting the level of income that the project can obtain. We accept that it may be more appropriate to deal with the latter issue through how the incentive arrangements are developed but the principle of allowing rates of compensation to vary depending on the magnitude of the delay should be part of a solution.

We now address some of the specific issues that you have raised.

Commercial versus incentivised approach

Whilst an approach where the TO was liable for the full cost to the generator of any delays, however caused would be ideal, we recognise that it is neither practical nor would be an acceptable term of business in many industries where the provider was subject to delays that are to some extent outside its direct influence, such as obtaining planning consent. It is also unlikely that even excluding factors like this would be satisfactory as in many cases the potential compensation would be several orders of magnitude greater that the cost of the transmission works. A smaller incentive on the TO to perform than the full loss to the generator should be adequate.

Having said that we feel that a fully codified approach would take away the ability for generators and the TSO (acting as agent for the TOs) to negotiate agreements that are suitable for individual projects. What is probably needed is

for some principles associated with compensation to be codified but parties allowed to negotiate bilaterally within these principles whatever is most suitable for individual projects.

Options

In general whilst it would be tempting and simple to set an average target time we feel that enabling assets in particular are so individual to each project that this approach would not be helpful. We do not therefore support option 3. We think that overall option 1 is probably the best with the target delivery date being set a fixed period after obtaining all consents and the TO being under an obligation to use reasonable endeavours to obtain the consents promptly, with an estimate of the time taken being laid down in the construction contract. We think that the details should be based on bilateral negotiation with general principles codified.

Regulatory treatment

It is important that the TOs shareholders get some reward or penalty from their performance in meeting reasonable targets so a sharing factor approach is appropriate. We think that it is probably more appropriate to base the sums to be shared between the TOs and customers on the basis of individual agreements. The use of average delivery timescales may not reflect the types of connections that parties request in the future or factors affecting timescales such as the planning process or required order times for equipment become slower of faster etc.

In terms of the source of generator compensation we feel that a base level should come from the TNUoS pot but that differences from standard level compensation arrangements (whether higher or lower) should be funded on a codified premium basis by generators who agree these deviations with the TSO (acting as agent for the TOs).

We hope that you find these comments useful. Please let me know if you would like to discuss them further.

Yours sincerely

Gaynor Hartnell

Chief Executive, Renewable Energy Association