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Dear Hannah

Project TransmiT: next steps on connections issues

The Renewable Energy Association gives below its response to the issues raised in your letter of 22nd March. 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 very important and we are aware that the current system of user commitment is a significant barrier to the development of many low carbon projects. Although this is most acutely a barrier for smaller companies we are aware that it is a major issue even for the largest developers.

This response should be read in conjunction to our January response to your previous consultation on timely connections.

The majority of our comments are on user commitment. Our high level overarching remark is that protecting customers from higher than necessary costs is not synonymous with minimising transmission costs or even transmission costs for investments that turn out to be abortive. Giving existing generators in particular the option to delay closure decisions until as late as possible does lower the cost providing secure supplies to customers compared to less flexible arrangements. Minimising the cost of stranded transmission that customers have to bear may in fact put up the cost of providing secure supplies to customers if the means to do this drives generators to take decisions in advance of the best overall time for them to make a closure decision. Equally whilst it is right for new generators to have to bear some of the burden of any abortive cost caused by a cancellation of their project, this should not be at a level that stops many promising projects from proceeding to the overall detriment of the end customer. In other words the customer may be better off paying for slightly more

stranded transmission if this is accompanied by a higher volume of low carbon generation than would be the case if the overall objective was defined more narrowly as to minimise the cost of stranded transmission that falls on consumers.

We will now turn to your specific questions:

High-level principles identified against which Ofgem considers enduring user commitment arrangements should be developed

The high level principles which you have identified are:

"to ensure the efficient allocation of stranding risk between new and existing network users, the network companies and consumers. The arrangements should be consistent with the relevant legal and statutory framework. Amongst other things, they should ensure that excessive or inappropriate costs do not fall to consumers, should be transparent, proportionate, non-discriminatory and not act as a barrier to entry (including to renewables) or adversely affect security of supply."

Overall we do not take issue with any of these objectives, recognising that some of them pull in the opposite direction to others. "The efficient allocation of stranding risk between new and existing network users" does not mean that the security arrangements have to be the same. Also when establishing whether "excessive or inappropriate costs" fall to consumers, the costs of reducing the flexibility of closure decisions for existing generators (which out up the cost to consumers of providing secure supplies) and of erecting barriers to the development of new low carbon generation projects (which also put up the cost to consumers) is given equal weight to the cost of transmission. In other words accepting that some abortive transmission related costs may fall on consumers may be a better deal for them than avoiding this with a generation market that responds less flexibly to changing conditions and where there are larger barriers to developing new projects.

An additional overall objective along the lines of that they should "promote the decarbonisation of the electricity sector and the achievement of any more specific government targets for the sector".

The high-level user commitment CUSC modification proposal (CMP192) as it currently stands

We support the idea of codifying the security arrangements and the CMP working group may emerge with a solution that is a suitable enduring one. We have two comments on the current approach.

Firstly although we accept that the effect of existing plant remaining on the system is the same as of nearby new plant this does not necessarily mean that the security they should provide ought to be similar. Secondly we have some concerns that the approach being adopted may be over complex.

In our view a reasonable starting point would be that for new plant the security requirements should relate to what are defined as their enabling works, which are after all what have to be completed before they can connect. Often the timescale for completing these enabling works (or at least the significant cost part of the process when equipment is ordered and construction takes place) coincides with the procurement / construction phase of the power project itself so the provision of security is less problematic than when significant security has to be provided earlier for parts of the MITS. Further extending the requirement as currently into part of the MITS gives a requirement to provide security for investment which by its nature neither has to be provided before the new power station / wind farm etc. can connect nor has a high probability of not being useable by other projects even if the project in question does not proceed.

Relating the security requirement for new plant to the enabling works only would be a pragmatic and easily understood method of ensuring that there was an appropriate balance between risks bourn by the power project developer and the TOs / consumers.

As regards existing users we remain unconvinced that forcing them to provide more security that they do at present is in the overall interests of the industry's customers. Allowing existing generators maximum flexibility regarding their closure decisions probably saves considerably more expense than any non optimal transmission investment that not requiring additional security may result in.

There are certain transmission charging arrangements that would in fact provide existing users with quite an effective signal to consider whether to remain on the system when their presence may contribute to the need for new infrastructure investment. For example the proposed Irish system whereby the locational element of the charges are derived from a parties prospective use of new / reinforced circuits that are planned to be built in the next five years as well those that have been completed in the past seven would provide a message to existing users (for which they would have to pay via increased TNUoS charges) that if they remained on the system reinforcement of infrastructure that they contributed to the need for would be required. This would start far enough before the major expenditure on the infrastructure so that if this did precipitate their closure, the major part of the infrastructure investment could be avoided. If they continued on the system paying the higher TNUoS charges then they would be contributing towards the cost of the reinforced infrastructure. Obviously they could still close after much of the cost of the infrastructure was committed but so as to render it stranded but they would have made a contribution towards its cost and the method is much simpler than what is being proposed.

The appropriate triggers for a potential SCR on user commitment

Whilst it is vital that this issue is resolved as soon as possible we would hope to avoid the need to a SCR, as this is only likely to delay progress further. As well as the generation industry almost universally seeing the present security requirements as a barrier to new project development, the TOs should have an incentive to remove this barrier if they do receive the proposed incentive to increase the proportion of low carbon electricity transmitted. The main area were there may be a significant difference of views between the TOs and generators is in the provision of existing security from existing generators. The development of alternative CUSC modification proposals would be an appropriate method to deal with that.

In our view whether a SCR is implemented or not cannot be decided in any event until the Project TransmiT decisions are made, as until this is not possible to

tell if the solutions are compatible with Project TransmiT. A pragmatic timeframe would therefore be to hope that the industry process leads to a satisfactory result but if there are concerns about it then an SCR could be implemented in similar timeframes to whatever process is being used to implement the conclusions of Project TransmiT.

Development of a new TO licence reporting obligation to gather further information in support of arrangements to facilitate timely connections.

We have no view as to how useful such a reporting requirement would be. However it is clear that if there were such a reporting requirement for it to be useful it would be important that you obtained the view of the generators who were either exploring options with the TOs or formally engaged in the connection process. They may not yet be licensed entities so an appropriate mechanism may be to place an obligation on the SO to inform anybody with whom it was having discussions about connection that it could report its views on how the process was going to Ofgem and give the potential conectee a paper or electronic form to do this. This could be married to whatever reporting requirements were placed on the SO / TOs so that Ofgem would have the views of both sides as to how connections were perceived as progressing. For obvious reasons the detail on the returns would have to be kept confidential.

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