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(Sent by email to Project.TransmiT@ofgem.gov.uk)

19th April 2011

Dear Hannah,

Project TransmiT next steps on Connections issues

Thank you for your update letter dated 22nd March 2011[1] inviting comments on User Commitment and Timely Connections.

1. Under User Commitment we:
    a. Address the principles which are currently too high level to be helpful and argue that they should be tied to 2020 and 2030 targets;
    b. Propose alternative measures to be used to indicate user commitment;
    c. State why "enduring" solutions are not possible at this time;
    d. Argue that post commissioning user commitment will adversely impact liquidity.
2. Under Timely connections we:
    a. Propose incentives on network companies to deliver beneficial outcomes;
    b. Support the reporting requirement, and;
    c. Highlight the costs to the consumer from late reinforcements;

[1] http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110322_TransmiT_Connections_Consultation_FINAL.pdf

User Commitment

Principles

3. The principles stated within the Ofgem letter are very laudable; however they are very high level and are insufficient to provide adequate detailed guidance or criteria against which to compare different options. For example, the words "excessive" and "inappropriate" are ultimately value judgements and are neither measureable or accountable. The principles should be meaningful, measureable and specific.
4. In our view the principles should be focussed on delivering the industry paradigm shifts required to deliver the 2020 renewables targets and the 2030 decarbonisation plan (as set out by the Committee on Climate Change) at the lowest cost to the consumer.
5. If the principles guiding the change are not focussed on the low carbon targets, then there is no point is having any principles in this process.

Alternative measures of user commitment

6. Generators already make major financial commitments in developing new projects and we propose that these commitments should be taken into account when determining transmission investments in lieu of current user commitment.
7. The financial commitments demanded under User Commitment are a significant barrier to entry and represent a disincentive to develop when added to the other financial commitments entailed in project development.
8. We want to see that all expenditure by users on developing projects is taken into account in assessing the risk of transmission reinforcements and developments. These generator expenditures include land / seabed leases or options, planning applications, environmental assessments, resource monitoring, engineering studies, supply contracts, finance deployment and any other relevant expenditure.
9. When these project development commitments are considered it should be possible to reduce or to dispense with additional “User Commitment”.

“Enduring” solution

10. We welcome reform of User Commitment and are supporting the working group CMP192. However an enduring solution may not be feasible at present for a number of reasons.
11. Firstly Project TransmiT is still in process and hasn’t determined the future of TNUOS charging. TNUoS charges are currently used to calculate some user commitment. For example if LMP (zonal or nodal) were introduced, with zero TNUoS for generators a system of User Commitment which used multipliers of TNUOS would not work. Also under LMP existing generators behind a constraint would see lower prices, so there would be an incentive not to generate and the need for user commitment for existing plant may no longer exist.

12. Secondly we are in a process of aligning our electricity market arrangements and rules with Europe and our arrangements must be compatible with Europe to ensure a level playing field for GB and UK generation.

13. Thirdly under the CUSC the revisions under CMP192 are open to subsequent user modifications.

Post commissioning

14. RenewableUK is deeply concerned by the levels of commitment National Grid would appear to be seeking to impose upon post-commissioning generators. A commitment of a value equivalent to four years of TNUoS would represent a significant financial challenge for many independent power producers and would be a clear barrier to participation in wholesale energy markets. This outcome would appear to run in direct conflict to Ofgem's published aspiration to improve wholesale market liquidity. RenewableUK is of the view that the case for TNUoS commitments in excess of the existing two years worth of charges has yet to be made. There are other means of providing the transmission system development signals that National Grid currently seek and that would not give rise to further erosion of the already limited wholesale market liquidity.

Timely connections

15. We have responded to the previous consultation and thank Ofgem for the summary which has reflected our views.

Incentives on network companies

16. Timely connection is obviously important to each and every generator and is important to enable efficient investment. Also, consumers as a whole have an interest in meeting the 2020 renewables targets and decarbonisation of electricity by 2030, as this is the lowest cost option for the UK economy to reach the 80% carbon emission reductions by 2050[2].

17. In our view, incentivising these 2020 and 2030 targets is an important driver for achieving them in the most cost efficient way for the consumer. Most of the new and modified connections in the next two decades will be for low carbon generation (including renewables) as well as interconnectors, accommodating exporting distribution networks, OFTO connections, flexible peaking plant and storage plant which will all help deliver the targets.

18. As Ofgem have summarised in its letter, incentivising timely connections can have perverse outcomes and is fraught with difficulties. Although RIIO has been proposed as a solution it does not currently have any measures to solve these problems.

[2] As identified by Committee on Climate Change

19. We would therefore recommend that a broad environmental output measure and financial incentive should be put in place under RIIO. Such an incentive would provide a real driver on network companies to connect quickly and to seek ways to reduce delays whether directly or indirectly in their control. Such behaviour would benefit individual projects and consumers as a whole.

Proposed reporting requirement

20. We welcome greater transparency and accountability for performance by network companies as we believe this will inevitably improve performance. We strongly support this proposal and suggest that this is also applied immediately to all network companies including DNOs.

Risk of stranding

21. We are concerned that the letter raises the spectre of "stranded assets" and as yet we have never been presented with an example of such a situation. Conversely your letter has omitted to recognise the flip side of stranded assets which are significant constraint costs incurred by late reinforcements. In spite of the best efforts in planning and delivery, transmission projects are inevitably either later or earlier than the economic optimum. If delivered early there is a cost to the consumer of the investment in the period before it was absolutely required. If delivered later the costs are very significantly higher due to constraints especially as these constraint costs are compounded by outages being taken to make the reinforcement.

22. We include a graphical illustration of this problem in Figure 1 for a hypothetical boundary constraint and reinforcement.

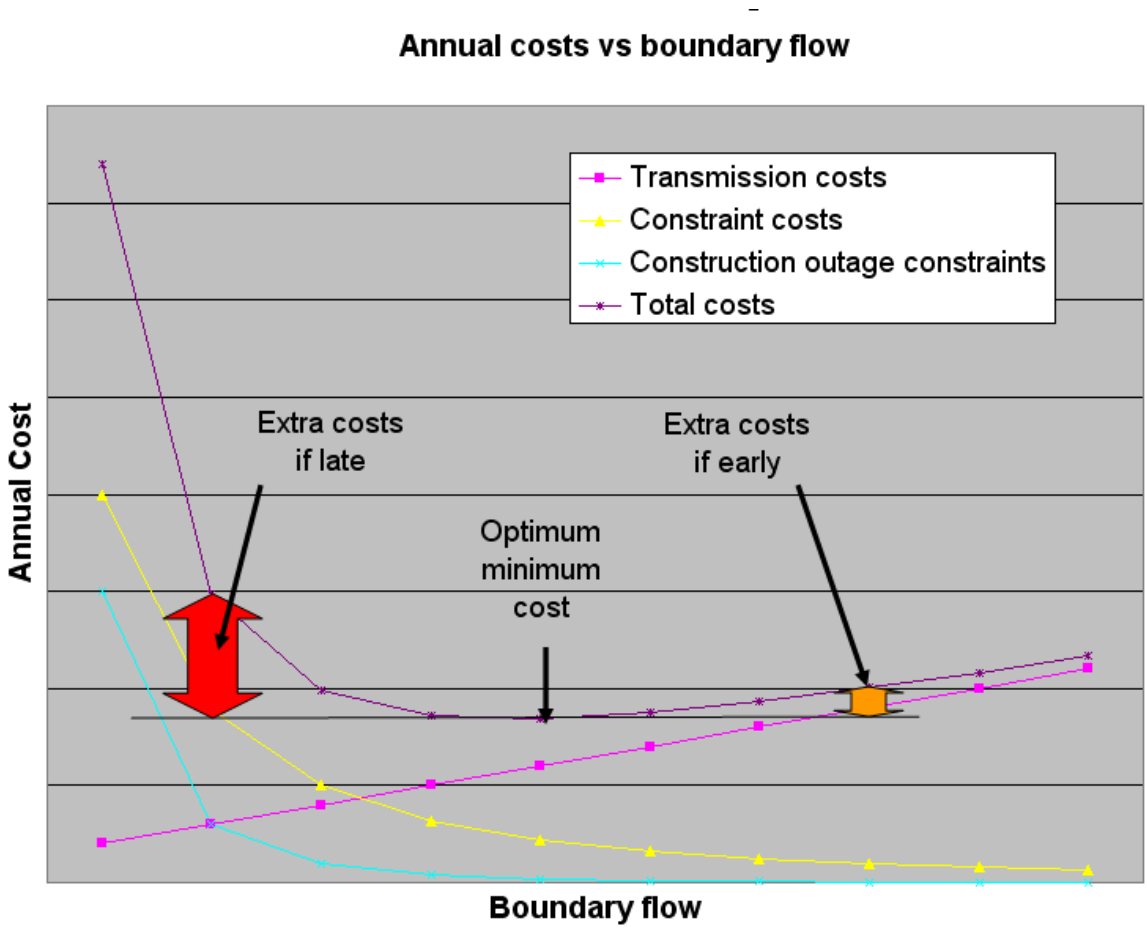

Figure 1 Cost difference for later or earlier transmission reinforcements[3].

23. From the analysis in Figure 1, we note that anticipatory investments (ahead of user commitments) are likely to be the most effective way of minimising costs to the consumer. This is especially true for renewable energy projects which can generally be built more quickly than major transmission reinforcements.

[3] Transmission costs are shown as linear with capacity in reality they are lumpy.

We welcome Ofgem's continuing engagement with these issues and welcome any opportunity to present or clarify our views.

Yours sincerely,

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Head of Grid
RenewableUK