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Dear Hannah

Project TransmiT: next steps on connections issues

Ofgem has noted that the UK now faces an unprecedented challenge in terms of connecting large amounts of new and low-carbon generation to the electricity networks. Current connection arrangements do not facilitate meeting such a challenge. In order to effect such a radical shift, reform of how new generation connects to the network is required.

1.0 Orkney, Shetland and the Western Isles

The planned 450MW Western Isles interconnector was not able to proceed in 2010 due to the combined impact of vast amounts of user commitment along with high charges for use of the system. To enable purchase and installation of the cable, developers would have had to provide a security of around £70 million over a minimum three year period. Such a demanding expectation proved to be financially unrealistic, and the connection could not go ahead. It is likely that connections to Shetland and Orkney will meet the same fate without reform of the existing model.

2.0 The deployment of offshore and onshore wind

The substantial challenges created by current connection and charging arrangements have adverse impacts upon the deployment of offshore wind. This is due to both the scale of the offshore grid investment required and the use of 'Final Sums Liability' as the sole means of securitisation. This is further compounded by high TNUoS charges offshore generators are currently exposed to. Offshore charging arrangements lead to significant reductions in charges for onshore generators, even if the amount of transmission used by onshore generators is unchanged. We are aware that this situation is under review, and trust it will lead to a rebalancing of this position.



Onshore wind is an essential technology in delivering 2020 climate change targets. If the purpose of the review is to facilitate migration towards a low carbon electricity mix, then it needs to look at how we bring on the maximum level of onshore wind in areas where the strongest resources are located.

The level of support for onshore wind will be reviewed alongside all other renewables technologies in the Renewables Obligation Banding Review 2011. It is therefore important that a unified and holistic approach is taken to any changes to the transmission connection and charging arrangements. There needs to be full coordination between the re-evaluation of Renewable Obligation Certificates and the cost of transmission charges which generators are expected to pay. We are aware of the argument that those generators who face high TNUoS charges, such as those in Scotland, are compensated by the current value of the Renewable Obligation Certificate for onshore wind. If, for instance, the value of a ROC for onshore wind decreases, it should follow that TNUoS charges should both decrease and become less volatile, in line with the objectives set out by Government when outlining the FiT contract mechanism.

The importance of strategic areas, such as Orkney and Shetland, and the deployment of offshore and onshore wind are key to the realisation of the unprecedented challenge Ofgem refers to. Failure to create transmission capacity to support such developments will be a setback to the UK Government's ambitions for renewable energy development. Consequently, an extensive and comprehensive change to how the electricity network is accessed and charged for is required.

In the Ofgem letter, *'Project TransmiT: next steps on connections issues'*, you noted doubt as to whether current arrangements strike the right balance between new and existing network users, the network companies, and consumers. We agree that the current arrangements do not strike the right balance in these areas, and specifically between the high level principles of consumer protection and ease of entry for new generators. This particular balance could be better aligned with UK Government policy.

Additionally, larger developers/supply companies are better placed to shoulder such a commitment over smaller companies and new entrants. Yet the government has outlined the importance of encouraging new market players. Such market players find the prospect of taking on such liabilities for new transmission works particularly difficult.

3.0 CMP 192: High Level Principles

3.1 Pre Commissioning

The nature of project development means that developers make a substantial and escalating commitment as commissioning dates approach. As such, uncertainty surrounding the risk of a 'stranded asset' prior to commissioning diminishes as the project progresses. Such a risk profile should be reflected in any enduring user commitment arrangements.

For both offshore wind and those areas with the best resources and most ambitious plans for deployment (i.e. Scotland) the burden of user commitment required should reflect the specific risks associated with local works, rather than greater system reinforcements. The risk of a stranded asset is very low where the termination of one project is very likely to see other projects coming forward to use the greater system reinforcements. This would be an expansion of existing arrangements for Beaulieu Denny and other strategic infrastructure.

3.2 Post Commissioning

In order to ensure that climate change targets are met in the most efficient way, it is important that there is efficient entry and exit from the transmission system. Renewable generators, such as wind and marine technologies, have a high capital cost but low operating costs. As such, there is a very low risk that such developments will close before the end of their projected economic life. The possibility that such parties will be required to bear the burden of carrying liabilities on their balance sheets under a proposal to extend post commissioning commitments is not an attractive proposition for renewable generators.

If National Grid extend post commissioning user commitment for generators, generators would expect to see some form of reduction in grid charges to reflect the additional security and risk absorbed by such an extension. Could Ofgem clarify whether this is a consideration when planning this change?

We recognise that longer notice periods for system exit will assist allocation of grid capacity, especially in constrained parts of the system. However, the requirement to secure TNUoS for a multiple number of years in areas with high prices under the current model may adversely impact on the economics of already marginal plant in these areas. This in turn may impact on security of supply and generation balance.

3.3 Strategic Investment

The proposals within CUSC Modification Proposal 192 are welcomed. However, there is also value in recognising that areas with a high resource, such as those

in the north of Scotland, would benefit from a greater emphasis on permitting strategic investment in grid infrastructure.

4.0 Significant Code Review

It is a possibility that a rebalancing of risks between differing parties cannot be achieved by the parties themselves, and that intervention by Ofgem may be necessary. If the outcome of the CUSC panel process does not deliver the Government stated priorities, then Ofgem should initiate the process for a Significant Code Review.

From the point of view of the consumer, it is important to consider how the combination of market risks are balanced in the cheapest way. The review of transmission charging is a good example of this balancing act. TNUoS charges within the current model and the proposed LMP models would lead to uncertain but high pricing of the transmission network in constrained areas. This will be priced highly by developers as it is seen as a risk element within their cash flow. The benefit of this approach is that the true cost of renewables is visible to the market. But the disadvantage is that it is highly priced to the consumer. At the other extreme, if grid upgrades were fully socialised and paid for by demand, the generator would not show any cost and risk within their cash flow. A socialised price would less be volatile and more predictable and therefore seen as lower risk and lower cost. However, the disadvantage is that the true cost is not visible to the consumer.

We are disappointed that Ofgem does not appear to be looking at this in a holistic and unified manner. DECC initiated the Electricity Market Reform process with the aim of reducing investment risk for low carbon technologies, and producing more certain returns for investors, which in turn facilitates a reduced cost to the consumer. If this policy is to be successful, it should be a theme throughout reform of the electricity market. Therefore reform of the system should be designed to reduce uncertainty and volatility, and in doing so minimise risk which will ultimately keep costs down for consumers. There is a clear difference in costs across low carbon technologies, and if the cost of renewables is to be reduced, it is important to look at how the deployment of the cheapest technologies is facilitated, and how the cost of the more expensive technologies can be reduced.

Additionally, Scottish Renewables would like to work with Ofgem and DECC to examine ways in which new renewables energy capacity could secure guaranteed access to the network behind existing system constraints by working with existing holders of TEC within the constrained zones.

Scottish Renewables is committed to working constructively within the CMP192 process. I trust that you find Scottish Renewables' comments helpful, and if you have any further questions or require clarification on the above points, please do not hesitate to contact me.

Yours sincerely

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