



Hannah Nixon  
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Dear Hannah,

### **Project TransmiT – next steps on connection issues**

Thank you for the opportunity to respond to the issues raised in your letter of 22 March 2011 on connection issues.

We share Ofgem's concerns that the requirement to provide inappropriately high levels of user commitment from developers wishing to connect to the transmission system may act as a barrier to achieving the transition to low carbon generation. However, imposing inappropriate levels on user commitment on existing generators carries the risk of forcing the premature closure of marginal plant which has the potential to provide important levels of plant margin when volumes of intermittent generation are increasing and this may have significant implications for security of supply.

### **Electricity User Commitment – High-level principles**

ScottishPower believes that neither Ofgem nor National Grid have demonstrated that there is a significant stranding risk to be allocated between the various parties involved in the transmission connection process.

As stated in the University of Exeter Report <sup>1</sup> "the asymmetrical nature of the costs and consequences of investing early and of not investing in time tips the balance very firmly in favour of earlier investment." ScottishPower believes that the risk of asset stranding has been over-emphasised and that consumers face a far more significant risk of increased costs from late or non-delivery of transmission infrastructure.

Given the significant delays to date in the authorisation of the transmission investment required to facilitate the growth in low carbon generation and the number of generators still waiting to connect, it is difficult to envisage a scenario in the near to medium term when any transmission investment is at risk of being under-utilised, even for a short period of time.

It is also clear that the majority of new thermal generation has been or will be built either upon or proximate to the site of existing generating stations with existing connections to the transmission network. Thus, the risk of transmission infrastructure becoming stranded through the closure of existing stations seems remote.

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<sup>1</sup> Academic Review of Transmission Charging Arrangements, University of Exeter, April 4, 2011

We agree that any solution developed should be transparent, proportionate, non-discriminatory and should neither act as a barrier to entry nor adversely affect security of supply.

### **Developing an enduring solution**

ScottishPower is actively engaged with CMP192 (Arrangements for Enduring Generation User Commitment) and is represented on the modification workgroup. While there is much to commend in the methodical approach adopted by National Grid in developing their proposal, the direction in which the proposal is currently heading would appear to place an unjustified level of user commitment upon existing generators whom by the very nature of their having made a significant investment in plant are inherently less at risk of asset stranding than those yet to be commissioned. There is general opposition within industry to any increase in the user commitment period for existing generators from the current two years to four years as suggested by National Grid. In particular, coal plant subject to the Industrial Emissions Directive and facing the carbon price floor may be unable to commit to transmission charges for this extended period.

The requirement to post large sums of financial security with National Grid by both pre and post commissioning generators will impact developers' balance sheets and restrict the amount of capital available for investment. Inevitably this will impact on the ability to reach the Government's low carbon objectives.

ScottishPower will continue to engage actively with the CMP192 process and believes that a timely and well-reasoned solution can be delivered by industry.

### **Significant Code Review**

ScottishPower believes that after only four meetings of the CMP192 workgroup it is too early to be considering whether Ofgem will be required to conduct a Significant Code Review (SCR) due to industry's failure to develop an appropriate solution. Ongoing active participation by the Ofgem representative on CMP192 should help ensure that this circumstance does not arise.

However, the appropriate trigger for an SCR process could be if the final proposals contained in the CMP192 workgroup report failed to attract support from the majority of industry participants during the consultation process. This would indicate that the proposals were unlikely to facilitate the necessary investment to achieve the government's low carbon objectives.

### **Timely Connections – Proposed reporting requirement**

ScottishPower questions whether a formal licence reporting obligation is required to be placed upon the TOs to gather further information on the issues which affect timely connection to the transmission network. Such an approach may be appropriate should an ongoing reporting requirement be felt necessary but a less formal approach may suit a one-off information gathering exercise. It will also be essential to record the views of generation developers to ascertain how well they perceive the connection process is functioning and not simply the views of the TOs.

Please call me if you have any queries on any of the matters raised above.

Yours sincerely,

**James Anderson**  
**Commercial and Regulation Manager**