



SCOTTISHPOWER RENEWABLES

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Sent by email only to Project.Transmit@ofgem.gov.uk

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. I am pleased to submit this response on behalf of ScottishPower Renewables.

As the UK's leading renewable developer, we have considerable experience of facing the challenges presented by the current approach to user commitment, and the threat it presents to delivering the UK's wider energy policy objectives, particularly in respect of the transition to a low carbon, sustainable electricity generation mix. Whilst these challenges are significant for onshore wind developers, they are significantly greater – and, presently, significantly more uncertain – for offshore wind developers, where the scale of the offshore grid investment is substantially greater and the only user commitment approach available for offshore works is 'Final Sums Liability'. Accordingly, we have real concerns that the continued need for developers wishing to connect to, or use, the transmission system to provide unnecessarily high and uncertain levels of user commitment will act as a barrier to achieving the transition to a low carbon electricity generation mix.

Electricity User Commitment – High-level principles

We welcome the CUSC Modification Proposal 192 (Arrangements for Enduring Generation User Commitment) and the work being done by the working group. In particular, we welcome the consideration being given to an approach that reflects the 'value at risk' of the investment being made. We believe that the levels of user commitment required from developers should reflect the real value of investment that could be stranded.

We believe that no factual evidence has been put forward to support that there is a significant investment stranding risk and so this is not a realistic basis for the continuation of the current approach to user commitment. Despite the recent introduction of 'Connect and Manage' there is still a significant queue of new generators waiting to connect to, or use, the transmission system and so, for the foreseeable future, it seems highly unlikely that transmission system assets will become stranded or under-used.

In addition, the current approach to user commitment does not take into account the 'value at risk' aspect. Addressing this should mean that developers of new generation projects should be asked to secure investment sums over the timeline of their projects that are much less likely to threaten or hinder achievement of the low carbon energy policy objective, making the stranding risk, and other parties' potential exposure, even less.

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Given the age and stage of development of our portfolio, our current focus is on pre-connection user commitment. However, we recognise the importance of post-connection user commitment, especially the part it can play in maximising the efficient utilisation of resources in a diverse generation mix. Accordingly, we do not see any benefit in increasing the current level of post-connection user commitment and, in fact, have concerns that doing so could reduce diversity and security of supply. The Government's recent decision to implement Connect and Manage with increased post-connection user commitment on an enduring basis was made following considerable debate and consideration of this issue. Therefore, we do not see any justification for revisiting that decision at the moment.

We believe that any proposed approaches should be simple, transparent, proportionate, predictable, non-discriminatory and should not present a barrier to entry or achievement of wider energy policy objectives. In addition, we believe that consideration should be given to ensuring consistency with EU approaches.

Developing an enduring solution

As stated above, we welcome the CUSC Modification Proposal 192 (Arrangements for Enduring Generation User Commitment) and the work being done by the working group in developing a sustainable enduring arrangement to user commitment. We are represented in the CMP192 process and will continue to support the working group's work, in the interests of delivering a timely, enduring solution to user commitment.

We believe there is a strong case for pursuing an approach based on the 'value at risk' of the investments being made and that the levels of user commitment required from developers should not only reflect the real value of investment that could be stranded but also the likelihood of stranding occurring. The sums involved in developing renewable projects – particularly offshore wind – are considerable, and developers signify their commitment to projects by making this investment at risk, having carefully assessed and considered the likelihood of project success. We believe that the strength of the developer's commitment could be used to help inform such an approach.

Significant Code Review

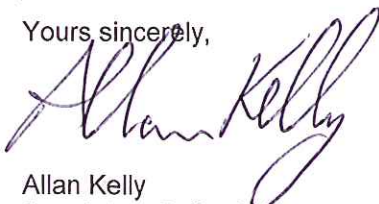
ScottishPower Renewables believe that undertaking a Significant Code Review should be considered as a last resort and only when the working group – which includes stakeholders from across industry – has failed to deliver a solution that meets the above stated aims in an acceptable and realistic timeframe. The delivery timeframe needs to reflect the importance of new renewable projects – especially offshore wind – being progressed urgently to meet the Government's low carbon energy policy objectives.

Timely Connections – Proposed reporting requirement

We welcome the attention being given to ensuring the timely delivery of new connections to, or use of, the transmission system. It is important that we maintain focused on realising the benefits of the Connect and Manage regime and if this requires further information to be gathered then we support this. However, we believe that more might be achieved by facilitating a workshop, attended by a representative cross-section of all stakeholders and informed by information provided by the stakeholders as part of an information gathering initiative.

We hope our views are clear but if you would like any clarification, or would like to discuss any of them further, please let me know.

Yours sincerely,



Allan Kelly
Regulatory Policy Manager
ScottishPower Renewables