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Dear Hannah

Project TransmiT: approach to electricity transmission charging work

The Renewable Energy Association gives below its response to the issues raised by your letter of 27th May asking for views on whether you should raise a Significant Code Review on transmission charging, and if so what the scope of that review should be. 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. We have participated fully in Project TransmiT to date including attendance at the Roundtable event in March, a comprehensive commentary on the academics papers presented there, and submission by a member of some general views on and options for transmission charging in November last year, which you have published on your web site.

Clearly the issue is of considerable importance for all generators and one where it is often not easy to achieve a consensus as by the nature of charging giving advantage to some parties often results in a corresponding disadvantage to other parties.

We are generally supportive of the conclusions that you have reached but fearful that you will both fail to undertake the most important aspect of taking the work forward, and unnecessarily limit the options for charging that are considered.

Your overall approach to charging

We strongly agree with your approach that the ongoing work should concentrate on the methodology for charging for transmission capital investment and operation and maintenance of new and existing transmission hardware. Locational marginal pricing may well be the "correct" way to charge for short term costs (which for the avoidance of doubt is not saying that we support it) but within the current framework whereby, given the generation and demand disposition, transmission owners have to invest in assets according to set rules and then recover the cost of those assets, it is not in itself the sufficient basis of a methodology for those charges.

Furthermore as you have mentioned market splitting arrangements may or may not come about as part of a move to greater European market integration. The compatibility of any such change with the DECC TAR decision on socialising the cost of constraints is of course an interesting question. In addition of course the matter of effective locational difference in prices due to the effect of transmission losses is currently separately under consideration. We therefore agree with you that at this time how to charge for the short term cost of transmission (constraints and losses) should not be dealt with by Project TransmiT but the question of how to charge for the long term costs, currently recovered by TNUoS charges should be.

Beware of neglecting the foundation upon which charging is built

For any method of charging that has any pretence to reflect costs one must start from a clear knowledge of what transmission requirements exist for any particular disposition of generation and demand. One can then charge users in some manner for the effect of their presence / operation on the requirement for new transmission investment / reinforcement etc. If there is no firm foundation of knowing for any particular combination of generation and demand what transmission would be built then there is nothing upon which to base any form of charging that reflects costs.

What transmission is required for any combination of generation and demand is determined by the SQSS and it is therefore essential to base and cost reflective charging methodology on this. We have many times over the past few years

emphasised the importance of the SQSS for price control reviews. It is also the foundation upon which any form of cost reflective charging is based.

We therefore maintain that for any review of transmission charging (apart from one considering complete socialisation of costs) to be meaningful it must as its basis have a well defined set of rules for determining transmission investment. The SQSS has been under fundamental review for several years and it needs to be clarified how much change is to be made to it over the next few years so that the charging discussions (as well as the Price Control) can move forward on solid foundations.

One suspects that hope of any progress in reviewing the more fundamental aspects of the SQSS in the medium term is a lost cause. However the treatment of charging for intermittent generation in particular is specifically (and in our view rightly) mentioned as an area to be considered under Project TransmiT. It is therefore essential that the review of SQSS in this area is concluded (so that one knows how much transmission is required for intermittent generation) before any consideration is given to how to charge for it.

Any so called cost reflective differential charging for intermittent generation can only actually be cost reflective if it reflects the actual transmission costs incurred due to such generation. The treatment of this under the SQSS therefore needs to be resolved urgently (and indeed until it is and discussion of cost reflective charging for intermittent generation is meaningless).

Basic generic types of charges being considered

We agree with you that the range of transmission charges range from postalisation through the status quo to "market splitting" and that the latter should be discounted as part of Project TransmiT. We do not agree that the only thing between the status quo and "market splitting" is described as "improved ICRP". There are other cost reflective transmission charging methodologies than ICRP (examples of which are described on your web forum) and it seems a false choice to limit discussion to postalisation, the status quo or incremental improvements to ICRP. There are other cost reflective methodologies to ICRP that should be considered alongside it as well as incremental improvements to ICRP and postalisation (the latter of which we do not support but would want it to be considered).

Response to the specific question asked

“We would welcome views on whether the review of the options for changes to the TNUoS charging arrangements under TransmiT fulfil the SCR criteria set out above. We would also welcome your views on the need, scope, scale and indicative timescales for the SCR.”

SCR criteria

In our view the criteria for the Significant Code Review are met. We are not sure however how you would propose to take the matter forward under this proposal as there is not yet a specific charging methodology that you are backing to the extent that a CUSC modification to implement it could be drafted. Are you going to direct NGC to draft a number of alternative CUSC modifications or are you intending to conduct the exercise on debating the basic charging methodology to be adopted outside and before the start of the formal SCR process?

Scope of SCR

In our view the SCR needs to have within its scope (or ensure is resolve through another means).

1. The resolution of matters within the SQSS that are relevant to any likely changes to the current charging methodology, for example planning for intermittent generation.
2. The methodology for charging for use of the transmission system in so far as such use effects the need for transmission hardware i.e. excluding charging for the cost of losses and constraints.
3. The methods considered for charging should include postalisation, ICRP and improvements to the ICRP methodology and other locationally differentiated charging methodologies that are not based of ICRP.

Timescales etc.

We do not think that doing justice to this with full participation from the people who will be directly affected by it can be done in two or three months. In our view it is essential the SQSS matters are resolved before charging is discussed. We recognise that much work has already been undertaken but we think that to complete the task properly an implementation of nearer to April 2013 is more realistic than April 2012. On the other hand we recognise that any uncertainty over charging may delay decisions being taken on much needed projects so the aim should be to complete the work as quickly as possible, consistent with doing a thorough job.

Trying to complete the SCR without resolving the SQSS first or indeed restricting the scope of a cost reflective charging methodology to ICRP or incremental changes to that methodology would be a wasted opportunity and a botched job.

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