

Hannah Nixon  
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Dear Hannah

### **Project TransmiT: Approach to Electricity Transmission Charging**

I am writing in relation to Ofgem's open consultation seeking views on the proposal to launch a Significant Code Review for transmission charging. Whilst the open letter specifically asks for industry's views on the proposal, Scottish Renewables also wishes to comment on further issues raised within Ofgem's open letter.

Our headline comment is that we are very encouraged by the emergence of socialised transmission charging as a potential option for the GB market. We look forward to working with Ofgem constructively over the coming months to feed into its work on these options.

### **Appropriateness of a Significant Code Review**

The latest communication regarding Project TransmiT<sup>1</sup> has indicated Ofgem's intention to undertake an assessment of a 'broad range of options' over the coming months, with a consultation on which of these are best suited to realising the purposes of TransmiT towards the tail end of this year. Industry would have preferred Ofgem to have narrowed down its emerging thinking before requiring consultees to commit to a definitive position on the Significant Code Review process. However, industry is keen to see progress on the issue. Therefore, given the very broad spectrum within which two potential areas of possible change fall, which in turn could encompass anything from relatively small adjustments to more fundamental reform of the current framework, it is fair to say that the criteria for an SCR could be fulfilled depending upon the scale of proposed change.

### **Management of the Project TransmiT process**

Given the intended timescales for Project TransmiT, and Ofgem's ambition to have any changes in place by April 2012, it is disappointing that the work undertaken so far does not represent any real narrowing down of Ofgem's thinking, and equally, does not represent any

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<sup>1</sup> [http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110527\\_TransmiT\\_charging\\_letter.pdf](http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110527_TransmiT_charging_letter.pdf)

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substantive progress on the part of Project TransmiT in spite of the review being close to half way through its intended course. Ofgem's decision to introduce a common charging methodology for distribution network users saw industry take more than two years to develop a charging methodology alone. Ofgem has already acknowledged<sup>2</sup> the negative impact that uncertainty emanating from both this review and reform of the electricity market has had upon investor confidence. Therefore, we welcome the intention to implement changes in April 2012, but also recognise that to have these arrangements in place for April 2012 is ambitious. Nevertheless we would urge Ofgem to progress changes expediently, and to also engage with industry regularly as to what changes could be realistically achieved for 2012. Our members believe that the terms of reference and process for the Significant Code Review should be made known, including the scope for stakeholder engagement prior to final implementation of change. We note that Ofgem intends to hold a stakeholder workshop in the coming weeks, and it would be useful for this to be used as a vehicle to convey such information, with further comments permitted for submission afterwards.

Additionally, Scottish Renewables would like Ofgem to communicate whether decisions and timescales pertaining to the P229 Zonal Transmission Losses proposal are to be aligned with charging activity under Project TransmiT. Our members believe that there exists an opportunity to align both streams of activity.

### **Charging Options & European Developments**

The renewables industry in Scotland is encouraged by the emergence of socialised charging as a potential option for GB. Whilst we are aware some analysts have perceived that such an option could encourage generators to locate in geographically remote and therefore high cost areas, we believe that under a postalised approach to transmission charging, such a situation could be avoided. We would like to point you in the direction of our members own responses for further detail on this and for further detail on our members concerns with both the ICRP and 'Improved ICRP' model. At this point, it is also worthwhile to note that recent European publications continue to assert that generators in GB pay considerably more in transmission and connection charges than their closest European competitors. The major Member States closest to GB on continental Europe all have uniform transmission charging. These methodologies are at least as shallow as the GB methodology, with the majority even shallower.

Whilst we are encouraged to see socialised charging remain on the table, we have concerns that the tone of the latest communication suggests these emerging options are merely a short

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<sup>2</sup> Stuart Cook, Senior Partner, Transmission and Governance. delivered via presentation at All Energy Conference & Exhibition 2011.

term fix pending further European developments. Such a situation could be disruptive for the market, so it would be useful for Ofgem to set out some form of plan outlining transitional arrangements and proposed measures for protecting existing investments. Furthermore, this has highlighted the importance of European developments and the potential impact they could have upon the GB market. As such, we would like to see Ofgem be far more communicative and transparent on its views, activities and role within European regulation. In particular, Scottish Renewables would like Ofgem to set out:

- how it expects associated EU regulation to match, compliment or enhance UK regulation
- plans to influence such developments, and whether these plans are aimed at better matching UK regulation

At the very least, this would further improve investor confidence and reassure existing projects. If you require any further information or clarification on the points made, please do not hesitate to contact us.

Yours sincerely

Jenny Hogan

Director of Policy

**Scottish Renewables**