



Hannah Nixon
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Dear Hannah,

Project TransmiT: approach to electricity transmission charging work

Thank you for the opportunity to provide views on behalf of ScottishPower and ScottishPower Renewables on (a) your proposal to launch a Significant Code Review (SCR) on electricity transmission charging (to take forward your charging work under Project TransmiT) and also (b) on the need, scope, scale and indicative timescales for such an SCR.

We support your proposal to take forward work on electricity transmission charging through an SCR and not to include in this Review the options identified in Project TransmiT which would require more fundamental change to the electricity transmission charging and wholesale market arrangements. We do however consider that the scope of the SCR should be extended to include transmission losses arrangements which can also provide a locational signal to electricity market participants and changes to which would not require fundamental changes to the wholesale market arrangements.

Ofgem has recognised in the recent impact assessment on modification proposal P229, which seeks to allocate transmission losses on a locationally varying basis, that the signals provided in the allocation of transmission charges and transmission losses interact with each other and need to be considered together to ensure that coherent and efficient overall cost signals are provided to users. An SCR, which can consider significant cross-code issues, is a suitable vehicle for considering the interactions between transmission charging governed by the Connection and Use of System Code and transmission losses governed by the Balancing and Settlement Code.

When Project TransmiT was launched we stated that we were open to the possibility of utilising the SCR process to consider transmission charging, but thought that further consideration was needed as to whether an SCR would improve the speed of the review and longevity of the conclusions, given that work was already underway using TransmiT's own process. While launching an SCR at this stage is unlikely to improve the speed of the review we feel it could improve the longevity of the conclusions, particularly if the outcome was stable long term arrangements for both transmission charging and transmission losses.

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Review of options

In terms of the review of transmission charging and associated connection arrangements we agree that electricity connection issues and electricity transmission charging are the immediate priorities. Electricity connection issues such as timely connections and user commitment are being addressed through the industry process in which we are fully engaged and we believe that a timely and well-reasoned solution can be delivered by the industry.

We agree that the more radical options identified through Project TransmiT, such as market splitting, which would involve major changes to the GB trading arrangements, should be discussed at a European level. The market splitting options which would introduce a locational element to wholesale prices are incompatible with other developments in the UK market and thus cannot be considered as viable options at this stage. It is important that Ofgem continues to consider the consequences of European developments for the arrangements in GB. Recent publications from Europe confirm that GB generators continue to pay considerably more in transmission network and connection charges than their closest European competitors and are thus being put at a disadvantage. The major Member States closest to us on continental Europe (France, Germany, Belgium and Netherlands) all have uniform transmission charging and only France requires generators to pay any transmission charges (and these are set at a low level). These Member States also have connection charging methodologies which are at least as shallow as the GB methodology, with the majority shallower.

We agree with the range of options, from Socialised Charging to improved Incremental Cost Related Pricing, which have been identified as suitable for further analysis in the SCR. That analysis should determine which option could best facilitate the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers. Locational pricing signals should not inhibit delivery of UK energy policy objectives and EU legally binding renewable targets.

Socialised Charging has been defined as a “postalised” or “postage stamp” approach under which the same uniform tariff would apply to all generation users, whatever their type and wherever they are located, with another set of uniform tariffs applying to demand users. Some analysts have considered this to be a system with no locational signals whatsoever and which would encourage generators to locate in very remote extremely high cost sites. Postage stamp charging could however retain the local circuit tariffs separate from locational charges which are incorporated into the current charging methodology which would ensure that extreme cost locations would only be used if they had substantial other advantages. These local circuit tariffs can be significant and charge generators for transmission infrastructure assets local to their connection ensuring they pay towards the local cost they impose on the system.

Other options to influence siting of new plants (where they can indeed sensibly respond to such signals) include a more limited system of locational charges applying to new fossil plant only; another possible variant could be to combine postalised transmission charging with the allocation of transmission losses on a locationally varying basis.

We agree that the SCR should also consider improvements to the current Incremental Cost Related Pricing methodology including the treatment of intermittent generation, charging for major transmission infrastructure investments, such as HVDC lines, and potential changes to the revenue recovery split between generation and demand. Options to be considered should also include charging for offshore grid assets, including any developed under a co-ordinated network agreement, and also charging for embedded projects.

Significant Code Review (SCR)

CRITERIA

The proposed SCR would satisfy the criterion that the issues raised can be given effect mainly through code changes. However we believe it is essential that the SCR considers whether it is necessary to change National Grid’s licence obligations or give guidance as to how these obligations should be interpreted. We believe there is a need for energy policy objectives to be



given greater prominence and to consider the option of clearly stating in National Grid's licence that the electricity transmission charging methodology should facilitate achievement of broad energy policy. The review will also require to take account of any new Government guidance on sustainability and low carbon generation.

The issues arising from Project TransmiT clearly meet the significance criterion for an SCR with potential significant impacts on consumers, competition, the environment, sustainable development and security of supply.

As currently proposed while the SCR would meet the criterion of creating significant code-licence issues it is unlikely to meet the criterion of creating significant cross-code issues. If however the scope of the SCR is extended to include transmission losses then this would create significant issues across the Connection and Use of System Code and the Balancing and Settlement Code.

SCOPE

We agree with the ranges of options for transmission charging to be considered under the SCR from socialised charging to potential changes to the current arrangements. However it is important that these changes are judged against the overall aim of Project TransmiT to better facilitate the timely move to a low carbon energy sector and not simply against an individual objective such as cost reflectivity.

As stated above we do however consider that the scope of the SCR should be extended to include transmission losses arrangements which can also provide a locational signal to electricity market participants.

TIMESCALE

Launching an SCR more than 9 months after the launch of Project TransmiT could result in significant delay for implementing changes. The opportunity should be taken to process the review quickly, building on the existing work, rather than starting from scratch. In any event, provided the opportunity is used to consider how transmission charging may interact with other options under consideration, including transmission losses and the Government's Electricity Market Review, then this could result in more stable long term arrangements which could encourage investment in the generation required to meet the Government's 2020 environmental objectives.

I hope our views come across clearly and we look forward to working with you going forward.

Yours sincerely,

Alex MacKinnon
Regulation and Trading Arrangements Manager