

By Email: Project.TransmiT@ofgem.gov.uk

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Dear Anthony,

14 February 2012

RE: Electricity transmission charging: assessment of options for change

Our ref. 120214_TransmiT

Thank you for the opportunity to respond to the consultation on the options for changing the transmission charging methodology. DONG Energy is a leading energy company operating in Northern Europe and headquartered in Denmark. It is one of the most active offshore wind operators and investors in the United Kingdom with a total pipeline capacity of approximately 2.8GW, including four offshore wind farms in operation, a stake in a further four sites currently under construction and a strong pipeline of potential future projects. We also have a 824MW CCGT power station in South Wales.

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DONG Energy welcomes Project TransmiT, and has been participating in the process since the call for evidence in Autumn 2010. While we would have welcomed the opportunity for the industry working group and the consultation to consider more options for charging, we understand Ofgem's desire to agree an option that can be implemented quickly. We note that there is still potential for change to the charging regime: the move to a single European electricity market by 2014 may require changes to transmission charging, and Ofgem's work on offshore coordination may require changes to the charging regime for offshore generation. We also note the absence of consideration of the treatment of embedded and transmission embedded generation in the TransmiT charging workstream and urge Ofgem to make consideration of this area a priority, given that the small generators' discount is set to run out on 31 March 2013.

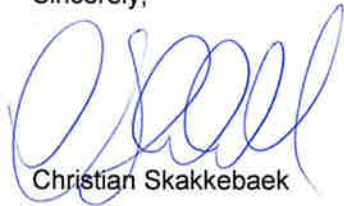
We would have preferred to see evidence to support the assertion that the Improved ICRP option is the most compatible with changes coming from Europe, as it was our impression that the impact of the European target model on GB transmission charges was still largely unknown.

However, we believe that the Improved ICRP option is the appropriate model to take forward at this moment. We believe it to work well with the principles of the new SQSS requirements, and it addresses one of our concerns with the current charging regime regarding the charging of intermittent generation when such generation often drives less network reinforcement than conventional generation.

As the consultation document mentions that variants of the Improved ICRP are possible, we would have preferred to see an indication of what those variants could be, and request that if following this consultation Ofgem do issue a direction to National Grid, that such a direction includes more detail on what the preferred modification will look like. We also urge Ofgem to publish considerations for transitional arrangements at the same time.

We have provided answers to the specific consultation questions below.

Sincerely,



Christian Skakkebaek

Senior Vice President
Head of UK Renewables

DONG Energy

Question 4.1: Do respondents consider that we have appropriately identified and where possible quantified the impacts of Project TransmiT options?

Many impacts have been quantified and presented in an extensive report by RedPoint. We welcome the publication of the detailed spreadsheet alongside the report, but note that in general there is a lack of sensitivity analysis. In particular, with only one gas price sensitivity included it is difficult to assess the relative impact on consumer bills of the transmission charging options compared to fossil fuel price fluctuations.

Also, as participants in the Government's Cost Reduction Task Force for offshore wind, we are surprised to see that under no option do the assumed support levels indicate that the levelised costs of offshore wind meet the 2020 cost reduction target that the industry is currently working towards. As offshore wind costs are significant in comparison to other technologies, and given the potential for growth in this sector, we believe there to be merit in modelling a sensitivity where such a target for cost reduction is met.

Question 4.2: Do respondents consider that there are additional impacts which we should take into account in the decision making process, and if so, what are these?

As mentioned above, we were surprised to see that Ofgem considered the Improved ICRP option to be the most consistent with future changes as a result of the European target model for 2014. We understand that due to the lack of information it is difficult to provide more detail on this area, but we would have liked to see an initial assessment of expected European changes and the likely impacts on the charging options. For example, given the high levels of constraints under the socialised model, some consideration of what would happen under a policy of market splitting would have been worthwhile.

Question 4.3: Do respondents consider that we have appropriately identified the potential interactions of the Project TransmiT options?

We assume that this question refers to the interaction with financial support mechanisms for low carbon technologies, and the proposed capacity mechanism. While there is still uncertainty regarding these mechanisms, we believe that the assessment is reasonable given the available information. However, as stated in the next answer, we believe that the cost assumptions for particularly offshore wind have not been explored in sufficient detail, and the modelling would have benefited from further sensitivity analysis.

Question 4.4: Do respondents consider that we have appropriately identified the likely impacts or consequences of these interactions?

As financial support mechanisms for low carbon generation is determined by various cost elements, of which TNUoS is one part, we are surprised to not see more sensitivity analysis with regards to the levelised costs of different technologies. As mentioned in the answer to question 4.1, we do not believe that RedPoint's view of the costs of offshore wind reflect the current focus on cost reduction in the sector.

5.1: Do respondents consider that we have appropriately identified and taken account of the key sustainability issues?

We believe Ofgem's consideration of sustainability issues is broadly appropriate, but would have benefited from further sensitivity tests around the cost of technologies and fuel prices.

5.2: Do you think there may be long term and strategic benefits associated with the development of HVDC technology, in particular the treatment of converter station costs for links that parallel the AC network, which Project TransmiT has not fully considered because of the timeframe of the modelling (i.e. 2030) and the limited nature of the bootstrap options?

We believe there are considerable long term and strategic benefits of HVDC. We expect this technology to become vital as offshore wind projects are increasingly located further away from shore. There will likely also be benefits in terms of a future offshore network, international interconnectors, and island connections.

5.3: Do you have any supporting evidence for a different treatment of the converter station costs for the planned bootstrap HVDC options?

No.