Forth Energy

Forth Energy's response to Ofgem's 'Electricity transmission charging: assessment of options for change'

Executive summary

Forth Energy, a joint venture between Forth Ports Ltd and SSE plc, has submitted applications under Section 36 of the Electricity Act 1989 to develop three high-efficiency, flexible, wood-fuelled Combined Heat and Power (CHP) plants in Scotland. The plants will be situated at the ports of Grangemouth, Dundee and Rosyth and will predominantly use imported, sustainably-sourced, woody biomass material. Together, the plants will have the capability to deliver 300 MW of reliable, renewable electricity to the national grid and 260 MW of renewable heat to both existing and new neighbouring industrial and commercial users, and to new local district heating networks.

Forth Energy's biomass CHP plants, utilising sustainably-sourced imported fuel, are capable of delivering decentralised renewable electricity and new heat networks in urban areas where demand is high, growing the economy and creating jobs, reducing carbon emissions and lowering reliance on non-renewable fossil fuels.

Forth Energy welcomes the opportunity to respond to Ofgem's *Electricity transmission charging: assessment of options for change*. We support Ofgem's assessment of the options for transmission charging and believe that:

- **Socialised charging should be ruled out as an option for setting transmission charges.**
- **Improved Investment Cost Related Pricing (ICRP) should be pursued as the preferred framework for transmission charging.**
- **Further modelling work should be undertaken to explore the potential for additional benefits from the Improved ICRP approach.**

Ruling out socialised charging

- **Socialised charging should be ruled out as an option for setting transmission charges.**

Forth Energy broadly supports the principal of cost reflectivity in determining an appropriate framework for transmission charging. Accordingly we agree that the socialised charging model should not be the preferred approach to setting transmission charges as it significantly erodes the signal to generators to locate efficiently.

We note that the modelling undertaken by Redpoint indicates that, relative to the Status Quo or Improved ICRP approaches, a socialised regime increases the costs to the consumer significantly from the outset and increases the risk of higher levels of fuel poverty in those regions where it is already most prevalent. Forth Energy believes these costs and risks outweigh the benefit of a greater likelihood of meeting the government's renewable energy targets, which are better addressed through careful consideration of the support mechanisms available under the Renewables Obligation, Electricity Market Reform and Renewable Heat Incentive.

Support for Improved ICRP rather than Status Quo

- **Improved ICRP should be pursued as the preferred framework for transmission charging.**

Forth Energy believes that Improved ICRP should be pursued as the preferred framework for transmission charging, rather than remaining with the Status Quo. The principal benefits of the Improved ICRP approach are that it retains the locational aspect of transmission charging, aims to improve the accuracy of the locational signals and better reflects the costs of transmission asset investments arising from intermittent renewable generators. Accordingly we believe that it strikes a well-considered balance between retaining cost reflectivity and facilitating connection of intermittent renewable generation in the North of the UK.

The modelling work suggests that Improved ICRP gives rise to a slight reduction in overall costs to the power sector, offset by a small increase in individual consumer bills. However, this increase is negligible in the early years and only rises beyond 2017, about the time that the benefits of reduced exposure of wholesale electricity prices to volatile fossil fuel prices will start to be realised.

Although any change from the Status Quo will entail some risks and costs, those incurred in moving to Improved ICRP are expected to be limited as it represents an evolution of the current approach, will require few changes of process throughout the sector and can be implemented rapidly. Such an incremental change also prevents the creation of sudden windfalls or cost increases for individual generators and suppliers.

Support for further modelling work on Improved ICRP

- **Further modelling work should be undertaken to explore the potential for additional benefits from the Improved ICRP approach.**

Forth Energy supports the move to an Improved ICRP framework and recognises that there is the potential for additional benefits to be realised through refinement of the current proposal.

In particular we believe that the treatment of the HVDC 'bootstraps' should be carefully considered, particularly in relation to the costs of the convertor stations. Our initial view is that HVDC cable convertor stations have broadly the same function that transformers and substations have for the onshore transmission system in that they effectively link different elements of the transmission system. Therefore there is a case for the substation and convertor station costs to be excluded from the costs of the HVDC 'bootstraps' on the basis of equality of treatment and non-discrimination with onshore links.

Notwithstanding our support for additional work on the Improved ICRP model, we urge Ofgem to issue, in the near future, a direction to NGET to bring forward an appropriate modification to the transmission charging regime so that the benefits of the Improved ICRP approach can be realised from the earliest opportunity.