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Project TransmiT - Electricity Transmission Charging: Assessment of Options for Change

Mainstream Renewable Power Response

Mainstream Renewable Power is a leading renewable energy company developing renewable energy projects across several continents. The Company expects to be a major provider of renewable capacity for the UK and has a development pipeline in excess of 5,000MW.

We are developing onshore wind projects in North America, South America, and South Africa. In the German North Sea, we are developing the 1200 MW Horizont project.

In the UK, we are developing two large offshore wind projects. In Scottish territorial waters we are developing the 450 MW Neart Na Gaoithe project. Additionally, through the SMart Wind consortium, we are developing the 4000MW Hornsea Round 3 zone with our partners, Siemens Project Ventures. Transmission charging is a critical area for all generators, and particularly so for offshore renewables.

We welcomed the launch of Project TransmiT by Ofgem. It promised to provide the opportunity to address in a holistic manner a number of important charging and charging related issues that the renewable industry had devoted considerable energies to over the years. We noted that the outcome needed to provide a stable basis for charging over the medium/long term, in order to promote confidence. We also identified several key energy market initiatives either in progress or about to be launched, which would need to be considered by the exercise including:

1. DECC plans for fundamental reform of the electricity market
2. The developing Offshore Electricity Transmission regime
3. The fundamental review of the GBSQSS
4. The development of transmission and distribution network investment plans under the new RIIO regulatory framework

We considered it of primary importance that Project TransmiT was aligned and consistent with these initiatives and crucially, overall government objectives for the electricity sector. We also

noted the increasing focus by Ofgem on European integration and its work in ensuring the emerging regulatory reforms facilitated UK generation playing its full part in an expanded market. Critically, the framework and analysis for Project TransmiT would need to properly address the move towards a single European market in electricity, underpinned by increased interconnection, offshore network coordination and eventual Supergrid.

We remain supportive of the rationale which led to the decision to commence Project TransmiT, namely that it was appropriate to undertake a fundamental review of *inter alia* TNUoS charging, given the changing dynamics of the network, its users and the demands placed upon it. The stated aim, “to ensure that there are arrangements in place that 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” remains a key theme in any future work.

However, the outcome of the Project is inconsistent with the objectives above. Given the timescale over which TransmiT has been conducted, it is disappointing that the most potentially valuable part of the work has been significantly de-scoped, condensed into an inappropriately short period and executed at a pace which has often left acknowledged industry specialists in the field of network charging and related areas, with little time for mature reflection on the complex issues raised.

Ofgem initially chose to widen the scope of TransmiT to include fundamental consideration of alternative charging methodologies and spent 5 months collating and considering largely academic work related to this. In May 2011 this high level exercise was concluded with a decision by Ofgem to limit transmission charging work to a specific focus on TNUoS.

The decision to take forward the Project under the framework of a Significant Code Review (SCR) from July 2011 suggested to stakeholders that a comprehensive and fundamental review would lead to robust, detailed and beneficial proposals for change.

The factors relevant to this decision were unchanged from those at the start of TransmiT, the difference being that 7 months of the project had gone by. Had the decision been taken earlier, it would have allowed both a wider range of alternatives to be considered by the Technical Work Group and also a more appropriate timescale for the volume of work necessary to adequately analyse, model and assess them. By the time that the Technical Work Group had been established under the SCR, the options for consideration had largely been defined around a modified ICRP methodology and a somewhat simplistic “socialised” charging model.

The timetable for the Technical Work Group was also, in part, determined by the initial ambition by Ofgem to bring in any changes resulting from the process for the 2012/13 charging year. Changes to charging are not uncommon in the industry and the appropriate “lead time” in introducing them to avoid undue risk and costs is well understood by stakeholders. The proposed timetable was thus immediately identified by participants as incompatible with avoiding significant disruption to industry processes and the ability of stakeholders to minimise risk in their commercial planning. Eventually, the concerns of industry were accepted and the potential implementation timetable re-aligned with appropriate timescales.

These factors have played a large part in shaping the limits of what could be achieved by the TransmiT processes and the ability of those processes to deliver outputs consistent with the initial intentions of the Project and the expectations of stakeholders.

The Outcome of TransmiT and Ongoing Concerns regarding Network Charging

The outcome of Project TransmiT may be characterised as the choice between “Do nothing”, a modified version of the existing ICRP methodology, or a relatively simplistic socialised option.

Given the work undertaken by the SQSS Review process in evaluating planning and operational standards applicable to the system, there is clear merit in considering whether different types of generation drive network investment needs in different ways. As such there appears to be consistency in applying consistent principles wherever possible between network investment and network charging.

As such the modified ICRP methodology appears to be a worthwhile development of the existing charging methodology.

We support the principle of cost reflective charging, but there are many potential realisations of a cost reflective charging framework. ICRP is but one of them. We reserve judgement as to whether ICRP is the most suitable one to achieve the stated objectives of the TransmiT review.

Modified ICRP should be implemented as soon as possible, consistent with sensible industry timetables which avoid disruption. It will therefore provide stakeholders with certainty and early realisation of any benefits which may accrue.

However, there are a number of unresolved issues which endure following the conclusion of Project TransmiT which need to be addressed. Ideally, this should be against a backcloth set out by the emerging requirements of the EU Third Package. In turn, the relevant UK stakeholders and Ofgem need to play their full part in shaping the development of those requirements.

Outstanding issues which require to be addressed are:

1. The treatment of demand and whether it requires a longer term vision in the consideration of charging options
2. How charging is implemented for sections of the network which develop from individual, through “coordinated” to meshed configurations - in order to provide a clear path for users who may be affected by future changes - a specific example is the uncertainty surrounding the charges faced by users in the development of any offshore coordinated networks.
3. The interaction between transmission and distribution charging and the potential for beneficial reform to ensure that both user benefit and overall network investment is further optimised
4. The appropriateness of the interconnector charging framework given the potential for both much greater UK interconnection and a significant proportion of that interconnection to occur as part of coordinated offshore network deployment.
5. A review of the *principles* behind offshore “local charging”, not just an extension of a process initially developed to address an onshore user choice issue. This concept was developed primarily to resolve the issue of how to appropriately reflect onto onshore users the reduced costs of investment where “user choice” resulted in a less firm connection to the MITS. As a solution to a “connection issue” for onshore generation, it has merit. It has subsequently been applied to offshore transmission links. Offshore transmission exists because of offshore generation. This in turn has been developed and promoted as a direct

result of government policy. *Project TransmiT has directly recognised the ambitions of government energy policy objectives in its remit.* The transmission links to shore are now at capacities which are many times those associated with individual onshore developments. They are, practically, part of the national transmission infrastructure. It is inconsistent to charge users of large transmission links, extant due to a direct result of government policy, on the same basis as local connection assets. We support a *cost reflective regime* for charging for these large capacity transmission links, but not the present *cost replicating* situation which is the consequence of applying an inappropriate construct to these assets.

6. The treatment of the Scottish Islands by the methodology and the resolution of the “132kV discount” issue in Scotland
7. A detailed and effective framework for engaging and leading the developing work on transmission charging at a European level. The UK needs to be at the heart of the process; not merely responding to initiatives developed elsewhere, which have a material impact upon our network and market.

Conclusion

As stated above, the modified ICRP methodology should be implemented as soon as possible, consistent with sensible industry timetables which avoid disruption. It will therefore provide stakeholders with certainty and early realisation of any benefits which may accrue. This should not be seen as the conclusion of work on transmission charging, but as part of the process leading to optimal outcomes for stakeholders as we move towards implementation of emerging changes under the Third Package.

Please do not hesitate to contact me if you require further information or clarification.

Yours faithfully

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