

14th February 2012

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Dear Anthony

Project TransmiT: electricity transmission charging – assessment of options for change

The Renewable Energy Association gives below its response to the issues raised in your assessment of the options for change to the electricity transmission charging methodology. As you know our members work on all types of renewable power and heat projects including many electricity generation projects that are dependent on the transmission system. We have participated fully in Project TransmiT to date including attendance at the Roundtable event last March, a comprehensive commentary on the academics papers presented there, and submission by a member of some general views on and options for transmission charging in November last year, which you have published on your web site. We have also participated in the Technical Working Group.

Clearly the issue is of considerable importance for all generators and one where it is often not easy to achieve a consensus as by the nature of charging giving advantage to some parties often results in a corresponding disadvantage to other parties.

Overview of your assessment

We agree with you that uniform or postage stamp charging of the main interconnected transmission system should now be ruled out as a way forward either with uniform charging of local transmission assets or with non uniform charging of local assets. As early as possible a decision stating this should be made in order to put to rest uncertainty within the industry. As was agreed unanimously by the Technical Working Group we feel that it is important that both the basic decisions are taken as soon as possible and there is a significant

time lag between these decisions and implementation of any changes to the charging arrangements, to allow industry participants to plan for them and have an opportunity to adapt their commercial arrangements appropriately.

We think that the improved ICRP model does have some advantage in terms of cost reflectivity over the status quo model and would be soundly based given the approval of GSR009 in November, formalising a more cost benefit based approach to transmission investment for main boundary flows resulting from intermittent generation. However, as highlighted by Ofgem in the consultation document, how the year round charge is calculated and levied (i.e. the ALF methodology and potential alternatives) should be further considered prior to making the final SCR determination.

We are concerned that island schemes should not be overcharged. In particular where there is a single interconnecting transmission circuit to an island we do not think that it would be appropriate to use a security factor in relation to that circuit of higher than 1 (or adjust the expansion cost to give an equivalent result). We hold this view irrespective of whether the network on the island forms part of the main interconnected transmission system or not and also of whether parties connected to it enjoy firm transmission access or not. We would also propose that the effect on tariffs of the move from ICRP to improved ICRP is applied consistently to islands and the mainland. We are aware that a number of proposals to achieve this have been made, some of which we think have merit.

We do remain disappointed that you have restricted your consideration of possible charging methodologies to the three that you did. As we have pointed out previously there are cost reflective transmission charging methodologies other than ICRP that should have been considered. Some are arguably more cost reflective than ICRP (status quo or improved) and should therefore in principle have enabled an even better outcome i.e. lower overall costs for an acceptable outcome in terms of carbon reduction, security and plant mix.

We do not agree with your conclusion that it is not necessary to alter the G:D split at this stage. It is clear that taking all relevant transmission related costs into account Great Britain is generally out of line with Continental Europe. This is an area where change is long overdue and also one where there are commercial advantages of giving a significant notice of any change so that contracts can be adjusted appropriately. The proposal to announce this Spring that the split would be changing from 1st April 2015 was a step in the right direction.

Response to the specific question asked

CHAPTER: Four

Question 1: Do respondents consider that we have appropriately identified and where possible quantified the impacts of the Project TransmiT options?

In general yes. The two provisos that we would like to make to this are:

1. We do not feel that some of the extreme transmission constraint costs given are a credible outcome and no attempt has been made to pretend that they result from an optimum transmission investment pattern. We think that further transmission investment would be made to reduce the constraint costs by more than the cost of the transmission investment, thus providing a lower overall cost.
2. We think that given that both the methodology sensitivities modelled (postage stamp with varying local charges and improved ICRP with bootstrap dc convertor costs socialised) are perfectly valid methodologies with some support, their presentation ought to have been given equal weight with the three base case methodologies within chapter 4 rather than just in paragraph 4.6.4 and appendix 2. For the avoidance of doubt we do not support either of these sensitivity methodologies.

Question 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?

We are not aware of any other impacts that we consider should have been modelled.

Question 3: Do respondents consider that we have appropriately identified the potential interactions of the Project TransmiT options?

With so many variables it is clearly not possible to identify all possible interactions of variables. Given that you appear to have come out against any change to the G:D ratio it may have been appropriate to model interactions with interconnected markets, however our position remains that it is self evident that more alignment with typical Europe wide practice would be beneficial for overall welfare, however measured.

Question 4: Do respondents consider that we have appropriately identified the likely impacts and consequences of these interactions?

We think that you have identified the likely impacts of those interactions which you have modelled.

CHAPTER: Five

Question 1: Do respondents consider that we have appropriately identified and taken account of the key sustainability issues?

Yes. We are firmly of the view that some form of cost reflectivity in transmission charging is the only sustainable way forward and should be robust to whatever develops. However we are not yet convinced that the charges to Scottish islands as currently modelled under ICRP are undertaken on a consistent basis with those of other islands that may be part of the MITS and would urge that further work is done on this to produce charges that are cost reflective but recognise the unique nature of them having both demand and generation but perhaps only being connected via a single transmission circuit.

Question 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 modelling has not fully considered because of the timeframe of the modelling (i.e. 2030) and the limited nature of the bootstrap options?

There may well be long term strategic benefits associated with the development of HVDC technology such as for example the development of circuit breaker or equivalent technology that allows complex dc networks to be split into separate protection zones without the need for conversion back to ac. However we do not see what this has got to do with transmission charging, the primary aim of which is to charge for whatever transmission equipment is installed. Strategic benefits of developing particular technologies are generally funded by tax breaks on research / innovation and specific subsidy mechanisms. There are undoubted long term strategic benefits of developing for example wave power but these are funded through mechanisms other than the transmission charging methodology and it would be no more correct to alter that methodology to give an unjustified advantage to dc links than it would be to use it to give unjustified

advantage to a particular type of generation or indeed customers in a particular geographic location.

Question 3: Do you have any supporting evidence for a different treatment of the converter station costs for the planned bootstrap HVDC options?

No.

We hope that you find these comments useful. Please let me know if you would like to discuss them further.

Yours sincerely

Gaynor Hartnell

Chief Executive, Renewable Energy Association