



Date: 2 August 2013

Charlotte Ramsay
Head of European Electricity Transmission
Ofgem
9 Millbank
London
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Dear Charlotte

Integrated Transmission Planning and Regulation (ITPR) Project: Emerging Thinking Consultation (Ref:83/13)

ABB welcomes the continuing engagement on the ITPR project and the publication of Ofgem's emerging thinking.

About ABB

ABB is a global leader in power and automation technology, providing products and systems across the energy, transport and manufacturing sectors. Much of our business focuses on the development of a secure and affordable low carbon energy system; and improving economic competitiveness.

In the UK and Ireland, ABB now employs around 3,000 people and continues to invest in jobs, training and facilities to deliver a secure and efficient energy future for the UK. We have made significant investments to develop local design and execution capabilities for large scale grid projects (interconnectors, offshore wind connections and major reinforcement projects) in the UK and Ireland. ABB also have investment interests in emerging wave and tidal technologies that rely on new transmission infrastructure. Therefore we have a significant interest in the successful development of the UK transmission market.

ITPR project – high level remarks

Transmission infrastructure is a critical interface between producers and consumers of energy. As a physical route to access the market, it is important that regulatory regimes do not distort incentives to efficiently plan and deliver secure and reliable transmission system. ABB therefore welcomes the focus of the ITPR project on integrated system planning and models for asset delivery. These are both important drivers for the development of a secure and sustainable UK transmission system. We believe that greater consistency across the regulatory models for onshore, offshore and cross border transmission will ultimately drive value for GB electricity consumers.

It is important that the ITPR project reaches a timely conclusion. ABB notes that the ongoing energy policy uncertainty has investment in UK generation and transmission projects. Furthermore, a number of key supply chain investments have stalled as a result of these delays.

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We remain concerned that transmission policy continues to be developed in isolation and that the whole system impact of the policy proposals has not been fully examined. Transmission investment decisions have wider impacts on the GB electricity system that should be recognised. In addition to providing a physical route to market for most electricity producers, the transmission system is essential to the delivery of a secure and affordable energy system for consumers.

The impacts of underinvestment in the transmission system are very significant. In addition to the increased cost of financing investment in new generation (which is reflected in a higher cost of energy), consumers are exposed to the deterioration in security of supply. In contrast, overinvestment has a modest direct impact on consumer bills in relation to higher transmission charges, yet this impact may be offset by lower cost of financing to new generation investment and enhanced security of supply. ABB would welcome clarity from Ofgem on how these trade-offs are reflected in the regulatory decision making process.

Consultation response

ABB fully supports the aim of delivering best value for current and future electricity consumers. We believe that measures to improve transmission network planning and enabling efficient transmission delivery is essential for a secure and affordable energy system in the UK.

Transmission system planning

ABB recognises that one of the major challenges to the effective development of the transmission network is the high level of uncertainty surrounding the main drivers of network capacity. The volume, timing and location of generation build out are continuously changing in response to volatile market conditions. In the longer term, we anticipate greater demand side participation in the market. This unprecedented level of uncertainty is making transmission system planning far more complex.

The consultation highlights a number of options to enhance transmission system planning. We broadly support Ofgem's emerging thinking to enhance the role of National Grid, as National Electricity Transmission System Operator (NETSO), to securing coordinated development of the transmission system in the UK, taking account of the opportunities for cross border developments. ABB considers that a central transmission coordinator is critical to the development of a secure and efficient transmission system, particularly in identifying projects of strategic benefit to the system as a whole.

It is important that the NETSO role is sufficiently ring-fenced from the other business interests within the National Grid Group. Conflicts of interest, both real and perceived, have a significant impact on commercial behaviour. It is important that the market has confidence that the NETSO will undertake its role independently of the wider group interests. Greater transparency of the NETSO activities, supported with strong regulatory oversight, will be crucial. However, business separation may ultimately be required.

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Whatever the arrangements put in place to address the conflicts of interest, we believe that there must be opportunity for external stakeholders to provide input to ensure that proposed system developments are effective. Ultimately, users of the transmission system will need confidence that transmission capacity will be made available when expected.

Framework for asset delivery

The consultation identifies a number of options for asset delivery to address the challenge of multiple purpose transmission infrastructure. We would welcome clarity on whether Ofgem considers these to be long term solutions or pragmatic approach for the shorter term.

Each of the solutions has been developed to reflect the current regulatory regimes that apply to onshore, offshore and cross border transmission infrastructure. We agree that there should be flexibility in asset delivery to avoid solutions being constrained by conflicting legal and regulatory requirements. Nevertheless, there needs to be sufficient certainty around the process for determining when and how flexibility will be exercised. As a minimum, Ofgem should provide detailed guidance on the principles that will be applied and under what circumstances.

We believe that certainty is critical to the success of any investment framework. Our view is that the framework should ensure that certainty is provided at the time any investment commitment is made based on known information. This is a key principle as it removes a significant element of regulatory risk from the process and ensures that timely investment can be delivered. In the absence of certainty or commitment, investors in generation and transmission projects (including interconnectors) are exposed to a significant project risk that is beyond the control of the project. This may ultimately prevent major investments from being made.

A key consideration will be the extent to which timings are aligned for each purpose within a project. In most instances, the drivers will not fully align and so some anticipatory spend is to be expected. ABB considers that there is merit in the developing a common framework to support anticipatory investments across all types of infrastructure.

Closing remarks

We consider that the regulatory framework must be sufficiently flexible and pragmatic to enable the UK Energy industry to deal with new challenges as larger and more complex projects are developed. Such an approach will enable key lessons to be learned, which will ultimately help drive down costs in the longer term. What is more important however is that the UK regulatory regime provides certainty throughout the entire value chain in order to deliver the design and delivery capabilities critical to timely execution of infrastructure projects.

Substantial investment in manufacturing capability and skills will be needed to develop a supply chain that has sufficient capability to meet global demand. Nevertheless, we are concerned that new Government initiatives and the revisiting of policy proposals is creating additional uncertainty, undermining confidence and deterring necessary supply chain investment. As a consequence, we

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risk creating further barriers to the successful delivery of a secure and reliable low carbon energy system. We want to stress the importance of reaching a timely conclusion to the ITPR project.

ABB is keen to work with Ofgem to assist in further developing these proposals to ensure that we have a robust regulatory framework that will deliver secure and sustainable energy supplies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Green', is located below the 'Yours sincerely' text.

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