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Dear Charlotte,

RenewableUK consultation response REF 83/13
INTEGRATED TRANSMISSION PLANNING AND REGULATION (ITPR)
PROJECT: EMERGING THINKING

Summary

RenewableUK welcomes Ofgem's ongoing engagement and update on progress with the ITPR project.

- **We are broadly happy with the direction of Ofgem's thinking, both in terms of an enhanced SO and in terms of flexibility in delivery regime.**
- **We would like to see a faster pace of decision making.**
- **We are particularly keen to see timely resolution of the regime on Interconnection and other arrangements beyond GB shores.**
- **Although we would not support the creation of an Independent System Operator at this time, we support the maximum possible separation of National Grid's NETSO role from its regulated to its non-regulated business.**
- **This project should be seamlessly linked to the ongoing work on offshore coordination and offshore charging for coordinated networks. None of these initiatives can be progressed in isolation.**
- **Any changes should not adversely impact existing, operational projects.**

Introduction

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 660 corporate members, RenewableUK is the leading renewable energy trade association in the UK,

representing the large majority of the UK's wind, wave, and tidal energy companies. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

The renewables industry has four specific areas of interest in the ITPR project:

- to facilitate the export of our abundant sources of renewable electricity to Europe
- to strengthen the options for security of supply at times of low wind in GB
- to reduce the cost of offshore wind connections
- to help access the most cost-effective wind resource for meeting the UK's 2020 renewables target

Although we comment on wider issues, these are our primary considerations when responding on ITPR. This response follows the structure of the questions as set out in Ofgem's consultation.

1. Do you think we have appropriately characterised the future challenges to network development? Where do you see the main challenges? What are the long-term strategic and sustainability implications of these challenges?

Yes, the document clearly summarises the two distinct issues of system planning and delivery of assets.

It would be helpful to have a more strategic overview of the materiality of the ITPR project. In particular, what is the range of Interconnection scenarios it aims to accommodate? What is the range of offshore wind generation it aims to accommodate? What is the range of system operation tools that may emerge (flexible generation, demand shifting, storage, etc.) that may complement the functions of interconnection?

We see the main challenge as early resolution of some pressing issues, in particular in relation to connections off the mainland.

<u>Interconnection</u>

Several Interconnector projects are currently underway where developers are faced with the need to commit significant project development expenditure (e.g: for marine

design, sea-bed surveys, EIAs or land acquisition) without any certainty as to how the returns of their projects would be fixed, limited or underpinned. This makes it very difficult or impossible for these projects to proceed at a satisfactory speed. In the light of the extremely limited amount of interconnection that has been built under the exempt/merchant model – just 1,000MW in several decades – this absence of an agreed model for non-exempt projects (with the possible exception of Nemo) is likely to be critical for Interconnector development as a whole.

This is of great concern. The current situation is delaying the development of Interconnector projects. In view of the high costs and risks associated with not making any project-specific regulatory decisions for new non-exempt Interconnectors until the ITPR project has advanced further, we recommend that Ofgem should start examination of the highest priority Interconnector projects as a matter of urgency. Priority could be judged through the "Project of Common Interest" classification assigned by the European Commission and timescales should similarly be aligned with those set out in European legislation.

RenewableUK very much welcomes Ofgem's consideration of the long-term strategic and sustainability implications. There is a real need for Britain to become better interconnected with the rest of Europe to reduce the cost of electricity to UK consumers, to assist in the integration of low carbon generation, and to increase security of supply. There is a potential cost saving also in the possible reduction of necessary GB reinforcements if grid constraints can be addressed via exporting the electricity.

In addition to the costs to UK consumers in terms of the lost opportunities as Interconnector projects are delayed, there is also the risk that our international partners choose instead to focus on projects to other European countries. Ireland, France and Norway are all working on connections to other countries, and for these alternative projects the regulatory solutions are already in place.

More generally, slow progress on Interconnection also reduces confidence that our abundant renewables resource will be fully utilised, and ultimately could lead to curtailment of valuable clean generation.

<u>Irish Wind / Connection to other Networks</u>

In developing its consenting strategy the developer needs to understand the basis on which it will be regulated as early as possible. Uncertainty not only around what type of licence will apply to the transmission assets (whether transmission or Interconnection), but also around the timescale for that licence being put in place, is very difficult to manage.

Such issues are not restricted to Ireland, and there are wider opportunities for other countries to capitalise on British wind, potentially without this being connected to the British network. This would still have benefits for UK plc and British electricity customers.

Island Connections

There has been much recent publicity on delays to grid connections to the Scottish islands (Western Isles, Orkney, Shetlands). One of the arguments relates to the needs case, and uncertainty on the part of Ofgem as to how much renewable generation would appear on the islands if the gird was built. This is a specific reflection of Ofgem's more general concerns with Anticipatory Investment.

Enhanced SO planning and oversight has the potential to identify more holistically the strategic and system wide needs case for grid development; and to ensure that grid delivery is happening to time.

The strategic and sustainability considerations regarding island connections for the nascent wave and tidal industries in particular are substantial. The Scottish islands are some of the best resources in the world for deployment of wave and tidal generation. But if we do not take advantage of the areas at this early stage, then the industries are likely to move to other parts of the world where they are better supported. British industry, the British economy, and the British taxpayer would all lose out as a result.

2. Are any of the review areas under ITPR more relevant than others?

ITPR is a system-wide project where relevance is hard to prioritise. However, we have set out above the areas where we see most urgency.

3. What are your views on the options for system planning discussed in this chapter? Are there other approaches to system planning that you think we should be considering within the ITPR project?

We believe Ofgem has reviewed all the credible options, and agree with the proposal for an enhanced System Operator at this point.

4. Do you think that it would be beneficial to strengthen the role of a coordinating body working with relevant parties to facilitate efficient decision-making? In what areas could this coordinating body add most value to the process?

Yes, a stronger coordinating could help facilitate efficient decision making.

In our consideration of a "Design Authority," we identified a number of potential functions, that could also be carried out by an appropriately governed enhanced System Operator. These include, as Ofgem sets out: identification of strategic system needs; identification of potential coordination opportunities; and review of the needs case for critical investment. Care is needed, however, for this role not to stray into mandating commercially or technically unviable solutions.

There is furthermore a role to peer review strategic network plans. Who is best placed for this role depends on the governance processes in place.

5. What are your views on the (real or perceived) conflicts of interest that could occur from parties holding dual responsibility in system planning and asset delivery and ownership? What are your views on potential options for institutional arrangements, separation and transparency measures to mitigate this?

Conflict of interest, both real and perceived, is an important issue. Even though National Grid has not to date won any OFTO contracts, this does not mean that they will not have an interest in further OFTO work in future. Furthermore, as an outcome

of ITPR, onshore transmission and Interconnectors are likely to be areas of potential interest.

The first and hopefully simplest tool to address conflict of interest is transparency. This means transparency and clarity both in the roles of personnel and departments within the System Operator / Transmission Owner; and transparency in their criteria and processes for decision making. There is a danger, with the SO network experts issuing extensive and highly technical plans, that the process for stakeholder engagement and peer review could be ineffective. In this event, full business separation is the next step.

National Grid's first publication of the Electricity Ten Year Statement (ETYS) in 2012 was very helpful. It has some way to go in terms of setting out the wider strategic issues, as well as guiding the reader to relevant technical information (e.g: background harmonics) on the state of the grid in difference places. ETYS 2013 should provide a valuable insight into how much further National Grid is able to go in producing something accessible and of value in this regard.

6. What are your views on potential future approaches to planning Interconnection? Should there be increased central identification of potential Interconnection that could benefit GB consumers?

Yes, we believe there is benefit in more central identification of potential Interconnection. This should form part of the enhanced SO role, with appropriate transparency, consultation, and review as set out above.

7. What are your views on the options for delivery of transmission assets discussed in this chapter? Are there other options that you think we should be considering within the ITPR project to address the delivery drivers and challenges identified?

We believe Ofgem has reviewed all the credible options, and agree with the proposal for flexibility for the application of delivery regimes.

8. Do you think that it would be beneficial to introduce some flexibility in the existing regimes to provide for alternative delivery routes, where this is in the

interests of consumers? If so, what criteria could be used to determine the delivery route for an investment?

Yes, flexibility in delivery would be helpful to avoid solutions being constrained by siloed regulatory requirements. Whatever the solution, migration of ownership will be a key concern.

The criteria should be established up front, so that industry is clear on how decisions will be made.

The impact of high grid securities also needs to be considered. Where integrated assets are developed by a third party, under the existing regime developers would be expected to secure their share of these assets. This is extremely difficult from a commercial perspective because of the size of the securities and lack of control of spend and project timescales. New risk sharing methodologies would need to be developed to facilitate the development of large integrated assets.

9. If we pursued additional flexibility in application of the regimes, what role should discretion play in identifying the delivery route for a particular investment?

If there is a need for Ofgem discretion, then the trigger for, scope of, and timing for application of that discretion should be clearly set out.

10. Do you think that the case for change to current arrangements to enable more integration and coordination is material now, or may become so in the future? If the latter, when?

We believe the case for change is strong now. RenewableUK is working towards the installation of 16GW of offshore wind by 2020. The larger offshore Round 3 zones, and some Round 2 projects, are likely to have a level of coordination when built. Of most urgency is the resolution of "simple" coordination under Ofgem's coordination project (e.g: coordination of phased projects or paired projects), but the prospect of more complex multi-purpose projects such as offshore connecting to bootstraps is on the horizon.

11. What are your views on our emerging thinking to consider further an enhancement of NGET's role as the SO in system planning to provide for a more coordinated and holistic approach across the GB system?

We agree with the proposal for a stronger SO, as per question 4.

12. What are your views on the emerging thinking that introducing further flexibility and applying criteria to designate whether an investment should be delivered by incumbent delivery or competitive selection could address many of the challenges and drivers identified?

We agree with the proposal for flexibility in the application of delivery regimes, as per question 7.

13. What other options should we take forward for consideration in the next stage of our work on ITPR?

We believe all credible options have been considered. We are more concerned about a rapid conclusion to the ITPR project.

14. Do you have any views on our approach and timetable for our work on ITPR, or on interactions with related areas?

We are keen to see a rapid conclusion to the project. The obvious interaction is with Ofgem's work on offshore coordination, and it is essential that the latter is resolved quickly in a way that neatly interfaces with ITPR arrangements. The other linked area of policy development and industry uncertainty is that of charging for grid access. There are uncertainties in:

- transmission charging (CMP 213), with the prospect of further developments from Europe
- Interconnector charging arrangements including any agreements at European level
- coordinated offshore grid charging

There should be consistency not only in the regulatory regime, but also in the charging regime. It will be important for ITPR decision making to take account of

developments in these areas to ensure the overall outcome involves appropriate drivers and incentives.

Although not featuring heavily in ITPR considerations to date, in line with the theme of integrated networks, there may be an opportunity for more thought to be given to the interface between transmission and distribution networks. Examples of issues include: outage coordination to minimise disruption caused by works on the transmission and distribution networks; consistency in securities and liabilities to avoid discrimination in favour of either transmission or distribution; and the overall contribution the distribution system can make to SO needs.

15. Do you have any other views on the ITPR project not covered by these questions?

In considering the multiple objectives of affordable electricity, security of supply, and decarbonisation, we believe the ITPR project should consolidate a vision regarding the transition to a low-carbon economy. For example, the decarbonisation of GB electricity should be a key objective of the enhanced SO – not to discriminate in favour of low-carbon energy generation, but to encourage pro-activity, coordination, and innovation in addressing the issues and barriers to the adoption of these technologies on the system; including ensuring that the network is able to accommodate these.

We continue to be highly supportive of Ofgem's initiative in this area, and welcome the emerging linkages with and consideration of wider strategic and sustainability considerations. We look forward to seeing the results of this in practice, and how such wider thinking is adopted in other areas of Ofgem's activities.

Yours sincerely,

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Grid Policy Team