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Dear Anthony

Scottish Renewables response to Ofgem's CMP213 Impact Assessment

Thank you for the opportunity to respond to Ofgem's impact assessment on CMP 213. Scottish Renewables is an industry organisation representing 330 organisations involved in the renewable energy industry in Scotland. As you will no doubt be aware, Scottish Renewables has been keenly interested in - and intimately involved with - the work which has culminated in the Project TransmiT review and, finally, CMP 213.

It has been a long process, which began shortly after the Transmission Access Review (TAR). At this time National Grid started to look at a charging solution to the network sharing concepts debated in TAR (as network access products), and to address concerns that had been long-expressed about the capacity-based TNUoS charge. National Grid brought forward GB-ECM-25 'Review of Intermittent Generation Charging' in June 2010.

We mention this by way of context for this impact assessment, noting that for sharing, the proposals are the product of over three years of work and development, the culmination of which was the nine month-long CMP 213 Working Group. As a result, there is no doubt that capacity-based charging is not cost reflective for intermittent and other non baseload generation, and therefore the question is really around the detail of how to do this, and the balance between practicality and cost reflectivity.

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Whilst Scotland's renewables industry overall preference was WACM 7, as the evidence base for the Average Load Factor link to incremental constraint costs is strong, and provides a more consistent and long lasting relationship than other shorter term effects of bid price and plant diversity in an area. The industry has also supported a no diversity approach as it improves cost reflectivity without excessive complexity, and also links variability in charges with variability in usage - which is manageable by all generators. In spite of this, we recognise that Ofgem's minded to position on Diversity 1 (in WACM 2) has the potential to strike what is a difficult balance between a broad range of views on the issue of diversity.

However, Scottish Renewables has some concern around Ofgem's minded to position on HVDC, which sees no socialisation of HVDC converter costs. Our concern centres on the inconsistent incentives this creates when comparing HVAC with HVDC infrastructure. We will work with our members to look at additional evidence in this area, for any future revisions of expansion factors.

Finally, Scottish Renewables does not wish these concerns to delay implementation and overall we support Ofgem's minded to position on WACM 2. In view of the protracted timescales and extensive debate over these issues, we are very supportive of implementation in April 2014.

Scottish Renewable's response to Ofgem's consultation questions can be found within the annex to this letter.

Yours sincerely

Catherine Birkbeck
Senior Policy Manager: Grid & Markets

Scottish Renewables response to Ofgem's Consultation Question

Question 1: Do you think we have identified the relevant impacts from NGET's modelling and interpreted them appropriately?

Scottish Renewables feel that the impact assessment is comprehensive, and note that it is additional to work undertaken by Baringa for the Project TransmiT SCR. We also note the materials National Grid has provided to industry allow users to calculate their own business impacts. This includes National Grid's commentary in its 25 July 2013 report to Ofgem, which details the drivers for year-on-year tariff changes, and the Transport and Tariff models incorporating sharing and HVDC links which have been made available to users on request. This should provide market participants the tools to understand the range of implications from approval of one of the CMP 213 variants.

Because there are so many factors at play in the modelling – support mechanisms, environmental targets, capacity targets, planning limits etc. – it is quite difficult to isolate the impact that transmission charging is having in the bigger picture. This is in turn is probably a fair reflection of the interplay of these factors in real life, unless generators are at an extreme and one or other factor is dominating an investment decision. The modelling provides a representation of the broad GB-wide picture, and we have noted some local impacts against Question 3.

We also agree that the assessment of near to medium-term impacts is more reliable than that of longer-term impacts, and that therefore more weight should be given to the shorter-term assessment (e.g. to 2020-25).

For these reasons we support the qualitative considerations that Ofgem made in coming to conclusions.

Question 2: Do you have any further evidence of the impacts of the charging options not covered by NGET's analysis?

Yes, we note that the impact assessment is largely with reference to changes against the status quo, giving the impression that status quo is the 'no change' option. however, Status Quo is not fixed and not itself without change. According to National Grid's analysis, Status Quo gives a £15 increase in TNUoS tariffs in Scotland over a five year period. Before Project TransmiT this would have been difficult to predict as there was no method for modelling HVDC bootstraps, the price control for the relevant years was not settled and the calculation of new expansion factors for the new price control is not transparent. This £15 change in tariff is larger than the difference in tariffs between Status Quo and the Original in the south of England. i.e. the tariff shock of keeping Status Quo is arguably greater than that of changing to an Alternative,.

Question 3: Do you agree with our assessment of the options in terms of the strategic and sustainability impacts? In particular, are there any impacts that we have not identified?

The modelling is set to achieve 2020 renewable energy targets, and 2030 carbon emission targets, and fixes nuclear power capacity in 2030. This means that the volume of renewable energy generation is being driven largely by EMR prices rather than the transmission charging regime. As Ofgem acknowledges, a better indication of the impact on renewables is the out-turn subsidy price for each model.

We agree with Ofgem that "the alternatives with higher strike prices have a higher risk of not meeting the targets." Noting that "Diversity 1 options require lower levels of low carbon support than the Status Quo indicating a lower risk of not meeting the targets."

However despite targets being met at a GB-wide level, this analysis does not pick up on regional and local impacts. In particular we are talking about the impacts on the marine and onshore wind periphery - namely Scottish islands - where the high HVDC costs are expected to have a significant impact on deployment of renewables. We recognise that this is a regional impact socioeconomically speaking, and something that the government is working on through its enterprise agencies. However, we are disappointed that WACM2 does not recognise in anyway the strategic value of the marine industry. High transmission charges will only be exacerbated by a relatively lower EMR strike prices, unless Scottish island generation qualifies for a new EMR strike price band of its own.

Whilst the consultation for additional support for Scottish islands renewables islands uplift is now published, which we strongly support as a means of addressing this issue, there is a risk that current proposals will not fully address the problem renewables developers currently face, and particularly marine developers. This is because the additional support for onshore wind on the islands has not been calculated based on the components of WACM 2 – namely HVDC part socialisation – and therefore the cost base for the uplift is not accurate. Therefore **these issues may not be addressed either through the transmission charging regime nor the targeted support DECC are proposing through an islands CfD uplift.** This could represent a huge missed opportunity and one where we wish to understand further how Ofgem has assessed strategic and sustainability impacts for the Scottish islands.

Question 4: Do you think that socialising some of the cost of HVDC converter stations could lead to other wider benefits, such as technology learning? If so, please provide further evidence in this area.

Our key concern around treatment of HVDC costs is the lack of consistency with the treatment of AC costs. If 100% of converter costs are fully cost targeted, compared to less than a hundred percent of equivalent AC costs, then AC infrastructure will look better to a generator paying TNUoS, than it will to a Transmission Owner paying capital costs. This difference in incentives has the potential to lead to some perverse decisions. This is not an issue of wider benefits or not, it is simply one of incentives and consistency.

In terms of wider benefits of HVDC, Scottish Renewables is not aware of any additional evidence that shows specifically for HVDC that more learning will reduce costs. However, cost reductions with technology learning and doing are a pretty well established effect in general. Furthermore, it stands to reason that GB players themselves will become more familiar with HVDC and reduce their own costs in working with HVDC equipment, as experience is gained.

Furthermore, if HVDC looks relatively more expensive to generators than AC, and contrary to underlying costs, it could frustrate take-up of HVDC and the wider benefits of technology learning and cost reductions that Ofgem talks about will be delayed or simply not realised.

Question 5: Do you agree with our assessment of the options against the Relevant CUSC objectives? Please provide evidence to support any differing views.

We broadly agree with Ofgem's assessment against the relevant CUSC objectives. In respect of the sharing proposals, the evidence that status quo is not cost reflective is well established and non contentious. The majority of the debate in the Working Group has been around how accurately the various Alternatives reflected costs, but we agree with Ofgem that the sharing Alternatives all represent an improvement in cost reflectivity.

Scottish Renewables also agrees with Ofgem that the Diversity 2 and 3 adjustments which place limits on sharing are not justified by the evidence. We accept that there could be evidence behind a diversity effect, although we have some serious concerns about the practicality of reflecting this in tariffs. As such, we

support consideration of the Original or Diversity 1 Alternative on sharing, with the choice being informed by striking the right balance between simplicity and practicality (the Original) against attempts to improve accuracy (Diversity 1).

Scottish Renewables acknowledges that there are some redistributional impacts of changing the charging methodology. We note however the point made in relation to Question 2 that status quo is not the 'no change' option, with north-south differentials widening over time. In some respects then, the sharing proposals mitigate these impacts, keeping tariffs more stable than they otherwise would have been over the medium-term.

We also support the decision to approve an option that uses five years of historical data to calculate a load-factor derived scaling factor. We agree that the hybrid option is open to manipulation and in order to protect against this would be too complex. In any event, we note that the charging methodology is seeking to reflect the relative differences in transmission investment driven by different technologies, and hence trends are more important than year-on-year changes. We would also be open to a more predictive methodology being proposed in the future, for those technologies where historical load factors are unrepresentative of long term future trends. There may for instance be a case for using generic load factors – as already provided for new plant – where a power station is fundamentally altering its operational regime.

Question 6: Do you agree with our assessment of the options against our statutory duties? Please provide evidence to support any differing views.

Broadly we agree with the assessment. We would however reiterate the risk of unintended consequences of the decision not to socialise any HVDC converter cost – namely the unaligned incentives on HVAC and HVDC technologies between generators and TOs.

Question 7: Do you agree with our assessment that it is appropriate to implement WACM2 in April 2014? Please provide evidence to support any alternative implementation date.

Yes. Scottish Renewables feel that the debate and assessment of, in particular, the sharing proposals has been very thorough and that there are tools available to predict business impacts. We note that the tariff changes are in the same order of magnitude as those seen by the recent implementation of new expansion factors.

As the Diversity aspects of the proposals do increase complexity, and involve collection of new data, we would recommend careful monitoring of implementation and provisions to keep industry abreast of the practicalities and any necessary refinements.