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Dear Mr Venn,

RenewableUK consultation response
Ofgem Forward Work Programme 2015/16

Summary

RenewableUK welcomes the opportunity to comment on Ofgem's Forward Work Programme for 2015/16. We welcome the range of initiatives that Ofgem is pursuing or proposes to initiate over the coming year. We believe these cover the main areas pertinent to renewables, but that four further overarching themes could usefully and explicitly be incorporated in the work programme:

- **a sense of longer-term direction and milestones; what delivery is needed from all the projects, by when, and how will they and associated developments fit together?**
- **the need for a robust interface between regulation of transmission and distribution; what is the impact of one on the other, is it a level playing field, and what are the opportunities for greater coordination?**
- **emphasis on transparent and efficient process and decision making; how will the resource and time required for new decision making processes be compensated for through resource and time efficiencies elsewhere**
- **identification of areas of relevance to Ofgem's work programme that may warrant further investigation, but are considered by Ofgem not to lie within its remit as such**

Introduction

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with some 600 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.

RenewableUK is supportive of and actively engaged in a number of Ofgem's initiatives. We believe these cover the main areas pertinent to renewables. Our response focuses instead on four overarching themes that we believe could usefully and explicitly be incorporated in the work programme.

Long-Term Direction and Milestones

In the consultation foreword, reference is made to the Government's upcoming Strategy and Policy Statement. The aim of the SPS is to ensure that Ofgem, while remaining an independent regulator, demonstrates how its activities are contributing to long-term Government policy goals. It is not clear when the SPS will emerge, but Ofgem could usefully adopt the spirit of the initiative by referring in its forward work programme to known goals such as those for decarbonisation and renewables deployment.

➔ **It would be helpful to have reference to long-term Government policy goals, including those for decarbonisation and renewables deployment, and how Ofgem's activities are contributing in an integrated way to their delivery.**

Ofgem is clearly pursuing a range of initiatives that should be of benefit to a progressive decarbonisation agenda. However, it is sometimes not clear when and what these are expected to deliver, and how they will fit with wider developments.

For example, what are the real priority areas for network innovation, by when do these need to be resolved, by when do the solutions need to be rolled out? By definition innovation cannot be mapped exactly, but a broad routemap / vision of where we have come from, what is being mainstreamed now, and where we need to get to, would be helpful. Without this, the risk is that innovation funding is offered to projects that, while well put together, may not be of most strategic value at that time.

➔ **There is a need for a broad routemap / vision with milestones of problems to be overcome within each work programme area. Network innovation is an example of an area where this could prove useful.**

Other areas of major change and strategic significance for the development of the energy networks are: the competitive allocation of Government support under the CfD regime; and the increasing volume of generation on the distribution networks

that is impacted by, and impacts on, transmission. These two areas are discussed further later in this response.

Interface between Transmission and Distribution

Traditionally, transmission and distribution have been regulated mostly separately; Codes, charging arrangements, investment plans have been different, for a number of reasons. However, with increasing volumes of distribution connected generation, a robust interface between DNO and TO will become ever more important. There are two aspects to this:

First, there is much to be learnt between TO and DNO regimes. RenewableUK is trying to facilitate this learning through use of fora such as the DG/DNO Steering Group and the annual DG Fora, which we have encouraged National Grid also to attend. It is surprising how little exchange of experience between DNO and TSO there has been to date, examples ranging from use of non-firm contracts to project milestones to register of contracted capacity to competition in connections (little of this in transmission). While there are complex differences between the arrangements, the differences in approach could be seen to lead to a non-level playing field.

➔ It would be useful for Ofgem to encourage learning between TO and DNO practices, and pro-actively to seek opportunities for regulatory clarification or intervention where there seems to be a barrier to adoption of effective practice. Competition in connections is an example of the latter.

Second, there needs to be comprehensive regulatory oversight of the interface between TO and DNO. For instance, ensuring that distributed generation is not unduly constrained off the system by inadequate transmission capacity as “Connect and Manage” reaches its limits – or conversely, that the needs case for transmission fully takes into account likely increases in distributed generation. It sends a worrying signal when a medium sized wind turbine receives a connection offer nine years away and costing tens of millions of pounds, on account of inadequate capacity high up in the transmission system.

Other areas where the interface between TO and DNO need oversight include pass-through of securities and liabilities (hopefully resolved under CMP 223), Statement of Works process for gaining transmission access, coordination of outages, etc.

RenewableUK has been very supportive of Ofgem’s ITPR¹ project to date. The initial priority for the project has been to resolve transmission issues. However, we see a potential natural extension to this project, whereby it looks at the role of the enhanced SO and the role of regulated transmission, both in relation to the distribution networks interface.

→ There is a need for comprehensive regulatory oversight of the interface between TO and DNO, with both incentive for mutual engagement and a regulatory review, for which ITPR seems to be an appropriate vehicle.

Transparent and Efficient Process

We welcome Ofgem's emphasis on stakeholder engagement and customer service in the regulatory obligations and incentives it places on the network companies. We are concerned, however, at Ofgem's own resource for such engagement.

RenewableUK is privileged as a trade association to participate in select Ofgem policy development fora. We have repeatedly found however that it is difficult to involve a wider group of industry experts in some discussion events.² It has not always been clear if this is a limitation in room size or a more narrow interpretation of stakeholder engagement. We are concerned at the proposed budget cuts and "efficiencies" that may render Ofgem's stakeholder engagement even more restrictive.

→ We encourage Ofgem to maintain at least the current level of stakeholder engagement and facility for events and meetings, and the appropriate resource for this.

Whilst we welcome many of the initiatives Ofgem is pursuing, we wonder if these always consider the resource and time required for new tiers of decision making processes, and how this will be compensated for through resource and time efficiencies elsewhere. This applies for instance where a proposal may promise to deliver direct cost efficiencies, but with the potential for time delays and complexity that may ultimately prove counterproductive. Examples under ITPR, of which we repeat we are supportive in principle, are role of enhanced SO in the assessment of needs cases, and competition in asset delivery.

We believe that options for practical process should be developed, consulted on, and tested, *before* a decision is made on whether to proceed. In other words, whether arrangements can be found that work in practice should determine whether something should be done at all. In the past and in other areas, Ofgem has on occasion treated the detailed practicalities as the next logical step before implementing a "minded to" principle, rather than as this further exploration of whether something is worth doing at all.

→ It would seem helpful practice to assess the practicalities of a new process in parallel with and as part of the CBA, and to make final decisions only once these have collectively proven to be of overall benefit.

¹ Integrated Transmission Planning and Regulation

Areas Warranting Further Investigation

Ofgem's remit and powers are set out in legislation, and restricted to its role as an independent regulator of the energy markets. The energy markets do however have fundamental impacts on, and are impacted by, wider Government policy and wider developments around the country and beyond.

RenewableUK would like to see priorities and Impact Assessments pay more attention to these wider considerations. Where Ofgem feels this is not possible, perhaps they could be flagged as deserving of attention by others – whether Government or third party stakeholders.

Two examples are as follows: The first is the huge economic benefit of the development of national infrastructure, not just in terms of facilitating new market entrants into the competitive arena; but also in terms of local/regional economic development (employment, services, etc.). While not all under Ofgem's remit, we believe these considerations should at least be documented.

The second example is the highly significant development of competitive allocation of Government support (CfD) for low-carbon generation. This leads possibly to more uncertainty in the development of a particular generation project, yet possibly more certainty in its final delivery. This seems inevitably to have an implication for how grid investment decisions are made, yet there seems to be little in Ofgem's forward work programme on this.

➔ It would add depth to Ofgem's work programme if the potential impact on or from developments outside of Ofgem's *vires* could be acknowledged in its work programme, and recommended for further investigation or decision by other parties as appropriate.

We hope the above response is helpful to Ofgem's considerations. Please don't hesitate to get in touch if you would like to discuss in more detail.

Yours sincerely,

Zoltan Zavody
Head of Grid

² European Network Code developments being a highly notable exception, with commendable stakeholder engagement process in place.