

Catherine Williams
Smarter Grids and Governance
Ofgem
9 Millbank
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14 May 2014

Dear Ms Williams,

Project TransmiT: Further Consultation on proposals to change the electricity transmission charging methodology

Scottish Renewables is the representative body of the renewable energy industry in Scotland, with more than 320 member organisations spanning the full range of renewables technologies. We have been closely involved with the extensive work which has culminated in the Project TransmiT review and CMP 213.

The CMP 213 working group found that capacity-based charging is not cost reflective for intermittent and other non-baseload generation. This is a significant barrier to the future development of our industry and our ability to supply the UK with the levels of generation necessary to meet its legally-binding 2020 renewable energy targets.

While we did not support every aspect of the work groups 'minded-to' position on WACM 2, we believed that the proposals would go a reasonable way to meeting the review's original aim:

"... to ensure that appropriate arrangements are in place to facilitate the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers."

We are therefore extremely concerned by the current delay caused by the introduction of new evidence at this late stage. It is our view that the newly introduced information fails to make a robust case to deviate from the approach set out under WACM 2 .

These proposals were the product of more than three years of work and development, with all parties given the opportunity to present evidence throughout the process. Any further delay or change to WACM 2 stands to significantly undermine the concerted effort of a broad range of stakeholders to make necessary

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changes to the current transmission system. Failure to implement these required changes will obstruct the delivery of national policy objectives with significant long term costs for the consumer.

We have set out our concerns in more detail in response to the consultation questions below, and we would be happy to provide any further information.

Regards,

Michael Rieley
Senior Policy Manager – Grid and Markets

Project TransmiT

Question 1: Do you agree with our interpretation of benefits to consumers of implementing WACM 2 , including revised impact assessment modelling?

Scottish Renewables supports Ofgem's assessment of the benefits to consumers through the implementation of WACM 2. The 2013 consultation set out evidence to support the case that a more cost reflective charging methodology should lead to a more efficient energy system overall which, in the long term, will lead to benefits for consumers. It is our view that the key features of the WACM 2 methodology are better and more cost reflective than the Status Quo.

The revised impact assessment modelling supports this view with the following results:

- Although the impact modelling does not present clear evidence that monetised benefits of WACM 2 outweigh the costs, the cumulative factors not included in the modelling would reverse this effect in the long run;
- The impact of implementing WACM 2 is likely to bring long term benefits to consumers, not all of which have been captured in the modelling.

Question 2: Do you agree that the revised impact assessment modelling captures concerns raised during August 2013 consultation about NGET modelling

It is our view that the current consultation adequately updates this model to capture concerns raised during the August 2013 consultation including further detail on the likely scope of EMR and the proposed capacity mechanism arriving at the conclusion that:

- The WACM 2 approach accurately reflects the way that transmission decisions are assessed, removing the concern that it is not in line with the transmission investment principles set out in the SQSS;
- WACM 2 methodology is somewhat more cost reflective than the Status Quo.

Question 3: Do you agree with our minded-to position in light of new evidence discussed below and the response to the consultation set out in Appendix 2?

Scottish Renewables is extremely concerned with the introduction of 'new evidence' at this late stage. It is our view that the evidence provided is flawed and fails to make a robust case to deviate from the approach set out under WACM 2.

Rather than presenting new evidence it appears that the analysis reworks old issues, given that the two main areas of new evidence and analysis relate to:

- evidence of cost reflectivity compared to the status quo in the case of HVDC links; and,
- evidence of the potential impact of the change on the sector and on consumers.

We have set out our concerns on this below.

Modelled assumptions

There is a lack of explanation around the modelled increase in offshore wind in England and Wales and the resulting displacement of onshore wind, nuclear and CCS. The resulting increase in consumer cost is highly questionable as it appears inconsistent with real world experience.

We would question the use of CCGT as the marginal generator in both the WACM 2 and Status Quo scenarios which over-simplifies the wholesale market price setting process.

Cost reflectivity in the case of HVDC

Consideration of frequency of marginal investment for HVDC and the scale of any differential arising between WACM 2 and the Status Quo show that the increasing cost reflectivity as a whole throughout the GB system will produce benefits that outweigh any risk that WACM 2 may be less cost reflective in certain circumstances. In addition, this risk can be mitigated through further changes to the transmission charging arrangements.

Impact on the sector and on consumers

- Wholesale power price

The assertion that the wholesale power price will need to rise, as a result of WACM 2 increasing costs for new-entrant thermal generators, was made on the basis of unstable modelling results in the 2013 analysis and as such was not robust. The current model attempts to deal with this issue by averaging the unstable results. However we would question whether this is an appropriate approach given the scale of the cost differential.

- Peak Security

WACM 2 can provide a separate peak security price signal that is currently absent from the Status Quo.

Poyry's own assessment makes a clear statement of support for sharing and demonstrates that the approach used under Status Quo is not cost reflective.

“However, with almost no sharing an OCGT would pay nearly as much for the year round as the wind (or indeed a nuclear plant if there was one). However, the OCGT

wouldn't run in practice unless the wind output was low – consequently it is very unfair that it should have to pay high year-round charges¹.”

Under WACM 2 in zones with some sharing an OCGT would pay less than a higher load factor plant, providing a clearer signal for locating peak generation.

- Annual Load Factor

Evidence submitted by Poyry supports the case that the Status Quo model is discriminatory and that wind should pay a lower charge than 100% of TEC. Scottish Renewables supports the view of National Grid that using Annual Load Factor (ALF) does provide the best factor to apply to wind for the year round shared element of the WACM 2 charging methodology.

Capturing a clear relationship between load factor and constraint cost through the use of an annual load factor (ALF) to weight the demand for transmission capacity created by dispatchable plant will deliver a more cost reflective outcome than the Status Quo – even if that relationship is not perfectly linear.

- Consumer Benefit

Consumer benefit is central to the case for implementing WACM 2. It is well understood that “a more cost reflective charging methodology should lead to a more efficient energy system overall, and this will, in the long term, lead to benefits for consumers”.

It is our view that the current consultation adequately updates this model to reflect further detail on the likely scope of EMR and the proposed capacity mechanism which have a strong influence on the results. While this provides a more informed view of the potential impacts arising from the implementation of WACM 2, it is important to note that modelling cannot capture all factors that will influence results.

With this in mind, the results show that power sector costs fall under both scenarios, highlighting the benefits of improved cost reflectivity; and where consumer benefits are more difficult to derive owing to required assumptions around the capacity market, a number of un-modelled effects will be passed on as benefits. Overall, we agree with Ofgem that “the modelling of power sector costs is likely to be a more accurate illustration of WACM 2 on the sector as a whole”.

Question 4: Do you agree with our minded-to position to implement in April 2016

We are disappointed that Ofgem’s minded-to position has been delayed to April 2016 from December 2013. It is especially difficult to accept given Ofgem itself

¹Poyry 3.2.1.4

initially stated that it expected these changes would be implemented in April 2012. We would strongly urge Ofgem to proceed with its most recent minded-to position and implement in April 2015 or as quickly afterwards as is practical. Any further delay will have a profound effect on the implementation of this beneficial change to the GB transmission charging regime. We do not agree that the negative consequences for consumer costs of implementation in April 2015 will materialise.