

Project Manager
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

06 April 2016

Dear Sir / Madam

Energy Market Investigation: Provisional Decision on Remedies

Scottish Renewables is the representative body for the renewable energy industry in Scotland. We provide a united voice for around 300 member organisations working across the full range of technologies to deliver a low-carbon energy system integrating renewable electricity, heat and transport.

While we welcome a number of proposals arising from the recent conclusion of the energy market which will promote transparency in the process of CfD allocation, we are writing to set out our concerns with the Authority's proposal "to require that variable transmission losses are priced on the basis of location, and to assign 100% of losses to generators, rather than 45% as under current charging arrangements."

Overall, Scottish Renewables objects to this proposal and the decision to implement such a change through the use of an order, on the following grounds.

Undermining investor confidence

The decision to implement a change to transmission loss charging outwith the scope of the existing BSC process and without any further details as to how the existing rules would change leaves many developers unable to assess the potential impacts that such a change would have on existing and future projects.

This is a particular concern given the significant impact that a number of recent and unexpected policy decisions have had on investor confidence across the renewables sector.

Established technologies in particular, such as onshore wind and solar PV, are increasingly looking to progress development in a market without subsidy – an ambition that is undermined with the introduction of uncertainty on future costs.

Insufficient evidence

The proposal to change the way that transmission loss charges are recovered and move towards a 'locational system' is not new and has been considered a number of times by the BSC panel.

Most recently this proposal (P229¹) was rejected by Ofgem as they were unable to identify sufficient benefit to support such a change.

With this in mind, there is significant concern with the supporting analysis provided to the CMA and presented as an annex to the report. The analysis presented does not appear to show any consideration of the impact that a change to TLM charges would have on projects with existing CfD contracts. In addition, there appears to be little consideration of the administration cost that a shift to location TLM charges would drive.

Overall, there are a number of errors both in terms of labelling and referencing, and out of date assumptions with regard to plant in service, which collectively serve to undermine any confidence in the final results.

Lack of consistency with UK and EU policy

The input assumptions are subject to significant change and appear completely inconsistent with the direction of travel for UK energy policy, for example:

- the Capacity Market price forecast, which is one of the main drivers of the derived 'benefit', appears much higher than that which any other analysis has previously presented on the subject – with little justification as to what would drive such an outcome;
- the projected capacity out to 2035² identifies that the majority of new onshore wind capacity will be delivered in England and Wales – failing to account for recent changes to Government policy which are likely to drive future development into areas with highest resource.

Network charging is a complicated and integrated area, with knock-on effects across the energy system. Any review should not be considered in isolation or taken forward suddenly. Instead a careful, holistic and systematic approach is essential.

It is important to note that National Grid are currently reviewing charging arrangements and there are further important interactions with European grid code development - any move towards locational charging would appear contrary to the direction of travel on EU policy and the need to create a level playing field across borders.

With this in mind, Scottish Renewables strongly encourages the Authority to withdraw its proposal and ensure that any further decisions to change charging arrangements should be afforded an appropriate level of scrutiny by all affected parties through the relevant procedures, rules and governance of the BSC panel.

We would be happy to discuss or provide clarification on any of the points raised in this letter with you, and look forward to your response.

Yours sincerely

Michael Rieley
Senior Policy Manager: Markets & Systems

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2011/09/p229-d_0.pdf

² Figure 4.10 , Methodology for assessing the impact of zonal transmission loss multipliers, https://assets.digital.cabinet-office.gov.uk/media/56ebde9fe5274a14d9000006/Appendix_2.2_-_Modelling_the_impact_of_zonal_transmission_loss_multipliers.pdf

