

Response: Competition and Markets Authority – Energy Markets Investigation (Electricity Transmission Losses) Order 2016

November 2016

RenewableUK is the leading trade association in the renewable electricity sector, representing over 430 organisations across the value chain in the wind, wave and tidal stream industries. Our members work to deliver clean and renewable electricity from Great Britain's abundant natural resources. These resources tend to be concentrated in locations far from our major population centres. As such, the impact of this Energy Market Order will fall disproportionately hard on our members.

RenewableUK strongly objects to the implementation of this Order. The assigning of a location element to the costs of transmission losses has been attempted through no fewer than nine previous BSC Modification proposals¹, and was rejected each time. For the tenth and newest BSC Modification proposal, P350, to state that the objectives of the Order satisfy Applicable BSC Objective A, the Order had to resort to augmenting the Applicable BSC Objective itself².

Though we are pleased to see that the Order has caused BSC Modification proposal P350 to be raised in order that its elements can be put into effect in the BSC, and subjecting its components to industry scrutiny, we are nevertheless concerned that it was raised under a strict requirement in the Order that a change *must* be made to the BSC to such that energy volume allocations locational transmission losses, and, as such, industry does not have the same freedom to examine and accept or reject arguments for the change.

P350, we also note, is to be merely a slightly augmented copy of P229, a modification which was rejected. We find little to justify the claim that a near-identical modification to one which the Authority rejected would be beneficial to the system. Considering that Ofgem believe that the wholesale price of electricity is “driven by the marginal cost of price-setting plant, rather than the generality of cost”, and considering that as the volume of renewables on the system has more than doubled since P229 was rejected in 2011, and that there is now far more wind in the lower strata of the Merit Order, it is perhaps worth revisiting the analysis of short-run marginal cost of electricity which Ofgem believed showed insufficient net efficiency benefits to see whether the changed situation since 2011 now provides greater or lesser net efficiency benefit to consumers.

Ofgem, in responding to P229³, was ultimately unconvinced⁴ that the measures would operate in the interest of existing and future customers. They were concerned with the large disruptive impact which would follow from the approval of such measures, in particular “in the context of the relatively

¹ The BSC Modification proposals were P75, P82, P105, P109, P198, P200, P203, P204, and P229. P229 was rejected in 2011.

² <https://www.elexon.co.uk/wp-content/uploads/2016/07/P350.pdf>

³ These documents cover the details of P229: <https://www.elexon.co.uk/mod-proposal/p229-introduction-of-a-seasonal-zonal-transmission-losses-scheme/>

⁴ The letter from Ofgem rejecting P229: https://www.ofgem.gov.uk/sites/default/files/docs/2011/09/p229-d_0.pdf

modest scale and uncertainty of the expected efficiency benefits”, and to this we add a similar concern.

We are happy that the Order does not seek to change the 45/55 split in the allocation of transmission losses between generation and demand respectively. It is fair, we believe, that consumers directly bare a proportion of the costs of losses in the system.

We also noted in our previous response that there is little in the modelling which was undertaken to justify the implementation of this Order to examine the interaction between a new locational loss signal and the already substantial locational element of the existing Generator TNUoS charge, a charge element which is often the largest single grid related cost item for a generator. That very analysis states that “TNUoS prices [are] the main driver of locational investment decisions.” When it is already the case that the TNUoS signal delivers a strong economic signal for the location of new plant, we see it as unnecessary to implement an additional locational signal with the same zonal arrangement, to augment the TNUoS driver.

In our previous response, we noted that a locational transmission loss charge would explicitly fall outside of the €2.50/MWh transmission charging cap set by EU Commission Regulation No 838/2010 Part B⁵. Three CUSC modification proposals have been made to deal with this cap (CMP224, CMP251, & CMP261) and we continue to urge the CMA to consider the detailed work still being undertaken by the industry through these modifications when considering the implication of a new locational charge through this Order.

Another issue of concern which we have with the Order is that it conveys a clear and unfavourable advantage on continental European generators who trade into the GB system through the interconnectors. These parties, who supplied 6.18% of the UK’s electricity in 2015⁶, are not liable for existing “export” TNUoS charges, and they will not be liable for locational transmission losses either. As our interconnector capacity grows from 4GW to 12GW⁷, this market asymmetry will only get more pronounced. GB generators – and therefore, ultimately, GB bill payers – will be subsidising European generators who wish to trade in GB. We cannot accept the CMA’s opinion that this clear commercial advantage is immaterial to considerations of the operation of a fair and equitable electricity system. Developers in GB need to build renewable resources in locations where the natural resources they rely upon are most abundant. It is manifestly unfair to deliver such developers into a system which puts them at an automatic disadvantage. We reiterate our belief that insufficient modelling has been done to prove with any certainty that this distortion will not be material in the GB market.

Finally, we raise a concern about the linkages between locational and seasonal transmission loss factors and the value calculation mechanisms for Contracts for Difference (CfD) contracts. Transmission Loss Multiplier (TLM) values from Section T of the BSC are used to adjust strike prices for CFDs via an opaque ‘TLM Charge’. It is not clear how a changed calculation schema for TLM values will feed into the CfD pricing mechanism, making analysis of the impact on the CfD from this Order very difficult. If the Order leads to higher strike prices, then fewer projects will be able to obtain support. We urge the CMA to consider the broader impacts of this potential change.

In summary, we object to the implementation of this Order on the following grounds:

- There have been nine BSC Modification attempts to implement a locational transmission losses scheme, all of which failed. We do not believe that a carbon copy of the most recent attempt will prove to be any better for the GB consumer merely by forcing a change to the stated objectives of the BSC.
- Ordering an industry modification panel to implement a change defeats the purpose of scrutinising a change proposal for genuine validity and value.

⁵ https://www.energy-community.org/portal/ENC_HOME/DOCS/2930027/0633975AD7687B9CE053C92FA8C06338.PDF

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/511955/Energy_Trends_March_2016.pdf

⁷ See the Interconnector Register here: <http://www2.nationalgrid.com/UK/Services/Electricity-connections/Industry-products/TEC-Register/>

- Renewable power must be generated where the resources are most abundant. This Order will fall disproportionately hard on renewable generators, predominantly located in locations remote from areas of significant system load.
- There is already a strong locational signal in the Generation Locational TNUoS charge, which already strongly impacts plant investment decisions.
- As the costs for locational transmission losses do not apply to interconnectors, this Order creates a clear market distortion between European generators selling power into GB and GB generators.
- The Order does not consider the impact on generators of the €2.50/MWh transmission charging cap set by EU.

For further information please contact:

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