OFGEM

Ofgem welcomes the publication of the Economy, Energy and Tourism Committee’s report following its inquiry into the achievability of the Scottish Government’s renewable energy targets.

While it is important to note that proposals for changing the current Transmission Network Use of System (TNUoS) charges are currently being developed by the industry, and therefore no firm decisions have yet been made, we are happy to respond where we can to the comments and recommendations made in the Committee’s report.

At paragraph 30 the report makes a comment about the potential impact of an improved ICRP charging model on generators sited on the Scottish islands. Ofgem’s primary duty is to protect existing and future consumers, and one of the ways we seek to do this is through promoting the efficient use and development of the transmission network. This minimises the costs that are ultimately paid for by electricity consumers across the whole of Great Britain. Our analysis has demonstrated that the best way to do this, taking account of sustainability goals, is through a charging model which is cost reflective (and therefore does not produce unfair penalties). This means that generators can make efficient decisions over where to locate and minimise the overall costs of the electricity system.

In May 2012 we issued through Project Transmit a decision for industry to develop an appropriate charging methodology for the island links that would be cost reflective and non-discriminatory. This matter is now in the hands of industry specialists to develop the detail of the proposals. We have given strong direction on the issues to resolve. For example, the approach must incorporate the development of island links into the methodology in a cost reflective and non-discriminatory manner. Following this work industry will present their findings to Ofgem and we will then make a decision on the proposals. We have not received the industry’s proposals to develop a new methodology, nor have we stated that an approved methodology will deliver a precise level of charge. Furthermore, because the design and costs of island links are not yet finalised, this means that an actual tariff cannot be produced at this stage – these can only be provided by NGET and the level of individual charges are a matter for the approved methodology to set. We also note that specific measures to improve the economic viability of individual projects, technologies or geographic areas are a matter for the UK and Scottish Governments rather than for Ofgem as an independent regulator.

At paragraph 90 and 91 the Committee’s report says there is a need for a new approach to charging for the Scottish islands. In addition to the above comments, as the committee will be aware a Scottish Island Renewable Generation steering group was set up last year by Edward Davey, the Secretary of State for Energy and Climate Change. This steering group is informing a study assessing the commercial viability of renewables projects on the Scottish islands and the overall value for money these projects provide for the UK. Ofgem attends meetings of this group as an observer.

At paragraph 94 the report asks for an explanation regarding compliance with EU legislation. Ofgem is confident that the current transmission charging system and our Project TransmiT proposals, currently under industry review, are fully compliant with
EU Directive 2009/28/EC and the Internal Market legislation, i.e. we think it does not unfairly disadvantage renewable generation in peripheral areas because any charging approach will require that they are charged (once connected) on the same basis as any other generator: on the basis of the costs that they impose on the national transmission system.

As noted above, the industry is currently developing these proposals, following this work the industry will present its findings to Ofgem and we will make a decision on the proposals. The charges that result from this cannot be guaranteed in any way – the level of individual charges is a matter for the approved methodology to set.

As Ian Marlee, Senior Partner Transmission at Ofgem, told the committee when he gave evidence on 13 June 2012, we are confident that cost-reflective charging is fully consistent with the Directive.

In response to paragraph 99, it is important to note that measures to stimulate economic development are a matter for governments rather than for Ofgem as an independent regulator.