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14<sup>th</sup> November 2008

Dear Mark,

## **Response to Working Group consultation on CAP 166**

The Renewable Energy Association is pleased to be able to offer its comments on your consultation on CAP 166. As you are aware our members work on all types of renewable power and heat projects and obtaining more timely access to the transmission system is one of the key issues that if achieved would help achieve the UK's renewables targets.

In summary the Renewable Energy Association does not believe that auctions are an appropriate way of allocating transmission access either for existing generators or for new ones. We therefore do not support the introduction of the changes proposed by CAP 166.

There are two fundamental reasons why we think that auctions are not appropriate as well as some practical considerations. Firstly they price transmission access by value rather than cost, and secondly they are an inefficient way to determine the need for new capacity. Expanding on each in turn:-

### **Pricing transmission access by value rather than cost**

We consider it to be inappropriate for what is essentially a monopoly provider of a service which should be provided at a regulated, cost-reflective charge. We are aware that the revenues of the Transmission Owners would continue to be regulated and the difference between the auction revenue and the allowed regulated revenue would (whether positive or negative) be recovered by a residual charge. However the basic charge in the first instance (the amount bid in the auction) would, where there was a shortage of capacity, be based on the value of the access to the bidder. This would essentially in the first instance transfer the margin from the energy market (where there are multiple buyers and sellers) to transmission access providers, which are monopolies. The subsequent reconciliation to the allowed revenues for the transmission access providers makes the eventual charges unpredictable. It would be unlikely that any individual generator would end up paying a total charge that reflects the costs of providing it with transmission access.

We are aware that it has been argued that it is wrong for generators to be able to trade at value (through subsequent TEC trading) something purchased at cost. Leaving aside any discussion of the veracity of this point of view, we would point out that if CAP161 and CAP 162 (SO release and overrun) are approved there would be alternatives to buying transmission access from a holder at value, which should mitigate some of the market power a holder of TEC might have and therefore make this less of an issue. If CAP 164 is approved then there would be an even more significant counter to a holder of TEC making a windfall profit as it could be obtained after a set delay by anybody wanting it.

### **An inefficient way to determine the need for new capacity**

Under an auction, bidders could follow one of two strategies. They could either bid what the capacity is worth to them – possibly giving up their entire margin or they must guess what the extra capacity will cost and bid an amount they think will trigger that spend.

Clearly generators do not have sufficient knowledge to make a guess as to what a transmission investment will cost. They do not even know the nature of the investment as they are not aware of what other parties are bidding and so what the total demand for access will be. Stating what access a generator would like and then being given a cost-reflective charge for that access, as happens now, is a more efficient way of triggering investment. The second alternative amendment proposal does this and therefore does not, in our view, fail on this point.

There are also two major practical reasons why we do not think that auctions are appropriate. The first is their complexity. Leaving aside any systematic advantage that complexity may give to larger players, the auction process would be a burden to the whole industry which would not be expected to be welcomed by any industry party.

The second practical reason is that we think that an auction process would make marginal decisions on keeping generation capacity available more difficult. This is potentially a threat to security of supply and / or would make the cost of providing a given level of security greater.

Because of our opposition to this proposal we have not answered the detailed questions asked, although we have completed the standard pro forma overleaf.

Please let us know if you would like to discuss any aspects of this letter further.

Yours sincerely,

Gaynor Hartnell,  
Deputy Director,  
REA.

<b>Respondent:</b>	
<b>Company Name:</b>	Renewable Energy Association
<b>Please express your views including rational with regard to the Working Group Consultation?</b>  <b>Including any issues, suggestions or queries</b>	<p>The original based on pre-defined zonal capacities is a non-starter as the capacity in each zone depends on the take up in other zones.</p> <p>We disagree with the fundamental premise that “The fact that the true value of transmission access rights cannot be discovered from the market compromises transmission licensees’ ability to develop an optimally economical system of electricity transmission.” The transmission licensees are quite able to develop an optimal system of electricity transmission by granting access to those that request it and charging them for the cost of that access on a cost-reflective basis.</p>
<b>Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?</b>	<p>We do not believe that either the original, or any of the alternatives, better facilitate the CUSC applicable objectives as it results in:</p> <ul style="list-style-type: none"> <li>• The transferral of generators’ margins to transmission access</li> <li>• More Complicated arrangements for transmission access</li> <li>• Less flexibility for generators exiting from the market</li> </ul> <p>It will not improve competition, increase the efficiency of planning and operation of the transmission system or increase security of supply</p> <p>Of all the options the original working group alternative 2 is the least bad option.</p>
<b>Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?</b>	<p>If the original or one of the alternatives is to be implemented then we would advocate a fixed date for implementation to reduce uncertainty.</p>