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Dear Stuart

Please find attached our response to the Project TransmiT Call for Evidence. It is appropriate for Ofgem to conduct a review of the transmission charging and associated connection arrangements after conducting the wider review of energy policy in Project Discovery and the network regulatory framework review (RIIO). Both of these reviews were conducted in an open and transparent manner and we are pleased that Ofgem has committed to conducting TransmiT in the same way. Projects Discovery and RPI – X @ 20 took a principled view of the current arrangements to understand how and if the current framework could deliver the Government targets in a sustainable, timely and cost efficient manner.

Project Discovery highlighted the potential scope of the UK's future generation plant, ranging from a large number of small, localised generators to reliance upon a small number of large scale nuclear generators. Project TransmiT needs to provide a transmission framework which is robust against all circumstances and recognises the potential impact of demand side management.

We have restricted our commentary to the Electricity Transmission elements of the paper.

The Distribution Network Operators (DNOs) have undertaken a significant review of the current distribution charging methodology which has highlighted a number of relevant issues to TransmiT. It is important that any charging methodology is as simple and transparent as possible. Users of the transmission network need to be able to understand how their costs are determined but at the same time, we recognise that the nature of the cost reflectivity requires a certain degree of complexity. We believe that these principles are included within National Grid's current charging principles.

It is important to recognise that generators connect at the most economically efficient part of the local network and in some cases this may lead to a choice between the

transmission or distribution networks. It is important that TransmiT identifies any cross-boundary charging differentials and avoids the creation of perverse incentives. Moving to a deeper connection boundary in transmission with extension assets being fully funded by the connecting party will provide greater locational signals on parties wishing to connect. The greater use of competition in the provision of these assets, e.g. with the transmission companies, distributors and third parties bidding for the work, will also promote greater efficiency.

Transmission charging arrangements

Project TransmiT should establish the strategic role and objectives of future charging arrangements. The important driver for the future charging arrangements is delivery of the wider policy objectives. Lessons must be learned that the entire policy framework must be complementary rather than conflicting. The clear message from the earlier energy reviews is that the future generation mix must focus on the carbon impact. In its TransmiT call for evidence, Ofgem identified “the need to connect large amounts of new and low carbon generation – while continuing to ensure value for money for consumers”. We agree that the future charging mechanisms must focus on delivering low carbon generation.

The greater use of distributed generation may reduce the need for capacity on the transmission system. The transmission charging arrangements must reflect the use that is made of the system, for example distribution business should be charged TNUoS on the basis of their net take and hence provide generators with an incentive to connect and generate in a manner which minimises the need for transmission investment. This would require a change to the distribution licence in respect of pass-through charges.

One of the challenges for the charging methodology is to achieve a fair balance between current and future customers. In order to do this, the wider generation tariff needs to recognise the long term impact of a connection on the network rather than purely reflecting short term peak load cost. We believe that the delivery of increased investment and lowest prices over the longer term requires future cost impacts to be taken into account within the charging methodology.

The introduction of DECCs “connect and manage” arrangements (designed to allow low carbon generators to connect in a timely manner) will only work if the generators are encouraged to invest.

Ofgem must also consider the existing role of the networks – facilitation of competition in the unregulated energy sectors. One of the core elements of this role is non-discrimination of either individuals or technology. Networks do not currently undertake any form of social redistribution or market distortion and we believe this should continue. We would be very concerned with options to facilitate low carbon generation using the charging arrangements which are not based on costs,

The Balancing System charging methodology principles appear to be robust under the present arrangements but the project needs to identify whether specific areas of the network produce disproportionate costs for the System Operator. It is important to understand if costs will increase with the less stable generation profiles associated with renewable generation, thereby ensuring that future customers and companies are charged based upon their impact on the transmission network.

Transmission connection arrangements

Our commentary on the transmission charging arrangements noted the importance of a cohesive policy framework. It is important that the connection arrangements are complementary to the wider energy strategy to decarbonise generation. One of the issues on the distribution network regarding DG connections is the number of applications which do not have full planning consent which could prevent or increase the cost of subsequent applications which are able to proceed. Whilst distributors can and do manage this contractually in cancelling agreements which are not progressed in a timely manner, we suggest that Ofgem should strengthen this by considering a principle which states that connections should not be halted by inactive applications. On this basis, the “first-come- first served” principle may need to be reviewed to ensure that connections are prioritised to those who are in a position to deliver rather than those who make speculative bids.

If you have any questions regarding our response please do not hesitate to contact me or a member of my team.

Yours sincerely,

Paul Bircham
Customer Strategy and Regulation Director