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Reference Number: 119/10

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Date: 12th November 2010.

Project TransmiT: A Call for Evidence

Sirs,

SmartestEnergy welcomes the opportunity to respond to Ofgem's invitation to give views on the scope and priorities for its independent and open review of transmission charging and associated connection arrangements (Project TransmiT). We note that Ofgem welcomes responses on any aspect of regulation related to the scope of Project TransmiT and that Ofgem are seeking views on whether the existing charging and connection arrangements for electricity and gas transmission facilitate the achievement of their objective, i.e. to facilitate the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers.

As we are primarily a consolidator of embedded generation and a supplier of electricity we address only those issues which relate to the electricity market and not the gas market.

We agree that Britain is in an unprecedented situation driven by the need to connect large amounts of new and low-carbon generation to the electricity networks to meet climate change targets, and we agree that it is sensible at this time for industry to step back and consider whether the access and charging arrangements are fit to meet the challenges of the future.

Inevitably, the nature of new technologies is leading to a greater increase in connection at distribution level than has been seen in recent decades. This appears to have led NGT to believe that they are in competition with distributors over connection and fear that they are "losing business." Whilst we have a two-tier electricity transportation system tensions between these two types of grid operator will always persist.

We understand the plan is that the scope of Project TransmiT will need to be wide enough to cover charging, related connection issues and the way in which charging will need to accommodate cross-European and other market and regulatory developments. For several years now NGT has promoted the idea that generation and demand connected to a distribution network should no longer be allowed to net each other off for the purpose of transmission charging but should each pay transmission charges related to their gross generation and gross demand. We believe it is inappropriate for NGT's reach to extend into distribution areas just as it is into interconnected networks. But clearly, early priorities under Project TransmiT will need to be focused on reviewing NGT's role in the business of transportation across all networks.

NGT are obliged under their licence to establish and keep under review appropriate transmission charging methodologies for the electricity transmission system. This should not extend to distribution charging arrangements but there is a contradiction in that the current licence obligations require NGT to have in place charging methodologies that, amongst other things, facilitate effective competition in the generation and supply of electricity (implying at transmission and distribution level). Project TransmiT should address this apparent ambiguity.

From our perspective there may be advantages to connecting to the distribution network compared with the transmission network. However, NGT are thinking purely economically in their proposals for gross charging and are not taking wider considerations into account. In order to encourage as much distributed generation as possible it is essential that the current embedded benefits remain in place.

Current arrangements for TNUoS and TLM are somewhat simple but effective – embedded generation receives a benefit equal to the charges on the transmission network but embedded demand pays the charges thus creating a net zero effect which reflects the fact that the transmission network has not been used. There are also arrangements in place to deal with the eventuality that a GSP may suddenly be a net exporter; the embedded benefit reverses.

We believe that the advent of SmartGrids and hence the opportunity to introduce more sophisticated charging across both transmission and distribution networks means that current arrangements should continue until this new world has been, or is close to being, realised. Enduring arrangements are not something that NGT alone can resolve; distribution companies and SmartGrids will be a large part of the equation. Given the amount of time it will take for the level of embedded generation to change significantly and given the planning required for sophisticated and accurate charging structures to be put in place to reflect SmartGrids, we believe that the current embedded arrangements should stay in place for the next 10 years or until the next review of the Transmission Arrangements.

We see no value at all in replacing the current embedded arrangements with others which are merely based on a different perspective, especially since the current arrangements are consistent with current government's policy of encouraging decentralised generation.

Turning now to charging methodologies themselves, we consider this to be an appropriate time to review the TNUoS charging arrangements. Charging for capacity has been on a "Triad" basis for Half-Hourly measured meters for many years. This arrangement leads to a great deal of uncertainty over charges/payments, even though demand reduction takes place over the peak period of the day for much of the November to February season. We would propose that the methodology for measuring Half Hourly meters is changed to cover activity of all the daily peaks during the "Triad" season.

We are also concerned about the way in which TNUoS charges can change mid-year. Customers require certainty in their costs and mid-year changes (as well as short lead times for annual ones) present unnecessary uncertainty for customers and/or risk on suppliers who enter into fixed price contracts with customers. Indeed, we would like to see year-on-year volatility smoothed out in some way.

We are supportive of the "Connect and Manage" initiative as it is important not to allow wider network issues affect connection charges.

BSUoS is a charging regime which currently works well and in our view should not be tinkered with.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours faithfully,

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