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Stuart Cook
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Dear Stuart

Ofgem Call for Evidence - Project TransmiT

The Association of Electricity Producers represents generating companies in the UK with our membership comprising a wide range of technologies utilising fossil, nuclear and renewable sources of energy. Members include some of the largest through to the smallest UK energy producers many of whom are actively seeking to invest for the future. This response has been developed following discussions held at our Electricity and Gas Committee and Electricity Network Committee.

Points for Clarification

Process

Members would welcome access to the full Terms of Reference for this review which was initially publicised by the Department of Energy and Climate Change (DECC) in its 27th July 2010 Government response to the technical consultation on the model for improving grid access. The Ofgem call for evidence states that 'Project TransmiT will focus on aspects of the current arrangements that fall outside the scope of the Government's work and have been specifically left to us to resolve with industry. Project TransmiT will have a particular focus on the transmission charging arrangements and the practical and commercial difficulties experienced by parties seeking to connect to and use the transmission networks'. In order that industry may fully assess the impact of this work upon current generating plant and planned investments, within a government policy context, we request that Ofgem provides early clarification of the full scope, timescales and expected outputs.

We would however point out that gas and electricity are fundamentally different commodities with different drivers and different approaches and any changes to one regime should not automatically be read across to the other. There may be merits in reviewing any outputs in this respect but this should not be the primary focus of the project.

Following conclusion of the Call for Evidence exercise recommendations will be published in summer 2011 when more detailed information about next steps and industry engagement would be welcomed. In addition to the Call for Evidence document Ofgem published on the 12th August 2010 a letter requesting industry views about topics to include within the scope of a Significant Code Review (SCR). The letter made reference to, but did not consult upon, whether charging should be brought within scope. Members have discussed this and believe that route to be too slow as it could add another year to the debate before industry begins to progress code amendments. This is a concern because the longer this process takes to complete then there is continued uncertainty for investors. Investor certainty is the primary requirement to ensure that GB carbon reduction targets are met and therefore while TransmiT seeks to facilitate the delivery of these targets it should not put them at risk with unnecessary delays. In addition Ofgem must take into account the ongoing Government wholesale review of the Energy Market. Any reform of charging methodologies must have due regard to the outcome of that exercise in order to avoid conflict and unnecessary implementation delays.

The Project TransmiT documentation includes few details of activities which will include industry other than a Stakeholder event, this call for evidence exercise and an opportunity to respond to an Ofgem consultation on the matter during spring 2011. Clarification on the further opportunities for industry input would be much appreciated as would the likely course of action following the publication of Ofgem recommendations during summer 2011. It would be useful to understand whether there is expected to be a period of transition to any new arrangements, subject to agreement of grandfathering rights or a 'big bang' approach similar to those we experienced at the start of the New Electricity Trading Arrangements (NETA).

Members would like to understand more about any Project TransmiT related meetings and transparency of data. The call for evidence letter states that Ofgem are looking to commission independent reports from academics for inspiration which will be published via a dedicated web forum. Publication of the Terms of Reference for this exercise would be most welcome. Our expectation is that the website should be regularly updated as new information is received and industry informed via the normal Ofgem notification service.

Finally, we would like to understand the process to be adopted for handling charging related modifications and amendments. It is proposed that electricity and gas transmission charging arrangements will be subsumed into the relevant Codes from January 2011. The management of any proposed

change to the existing arrangements will prove problematic in the light of a wholesale review.

Proposed Content and Scope

The linkage between ongoing work on the SQSS review, Price Control and a proposed charging review is not clear. Under 'normal' conditions the SQSS review would be completed first as it determines what the Transmission Operators need to invest in. The price control then dictates how much money in total has been allowed for this and finally the charging arrangements determine the amount parties pay in a cost reflective manner with the whole amount collected adding up to the amount decided by the price control. In this way the SQSS is the foundation upon which everything else is built. The outcome of this charging review could have major implications for the price control and charging arrangements and this should be taken into account when deciding which proposals should be developed further. National Grid has work ongoing regarding charging for Islands, Intermittent and Embedded Generation and states that some, but not all of this work continues. We wonder how this is possible in light of a wholesale charging review and would prefer consistency and stability rather than incremental ongoing changes which are not helpful for investors.

National Grid has recently concluded work which has been well received by industry on Final Sums and Security Cover proposals which we believe is more cost reflective than the previous regime. The proposals were only an interim measure, however, and need to be further developed to deliver an enduring regime. Frequent change leading to uncertainty in this area does not help in attracting significant much needed investment.

Demand charging is not referenced in the Ofgem documentation however we believe it appropriate to assess elements of the current charging regime for demand.

We would like to understand how the work on any EU mandated harmonisation might be factored into the future charging framework for the UK. The EC/ACER/ENTSOG three year work plan identifies that work on the Framework Guidelines for the harmonisation of gas charging structures should be complete by the end of 2011, for electricity this date is the end of 2012. If the UK is mandated to make adjustments to our regime then members believe it to be better to do so now rather than go through any upheaval again in the near future, however not all EU related change is appropriate or an improvement on the current arrangements. The review of transmission charging should ensure that generators located within GB are not at a competitive disadvantage to those exporting into GB from Europe.

Members seek a stable, predictable and transparent charging methodology which will enable them to make the investment decisions required to meet the Government's targets for a low carbon generation sector. While such a methodology should be technology neutral, it should not have an adverse effect on environmentally beneficial investment decisions.

Other issues of interest – Electricity specific

National Grid undertook a mid-year change to Transmission Network Use of System (TNUoS) charging due to the timing of the Offshore Go Live. Members have had to manage this as an 'exceptional' issue and would not like to see this creeping in as a normal occurrence in future.

National Grid has established a Commercial Balancing Standing Group which is looking at Congestion Management and, although members may not agree on the eventual findings, they acknowledge the value of the work the group is undertaking. In this regard however it would be good to re-iterate members' views around encouraging National Grid investment. We cannot connect our generation plant unless National Grid is seen to invest in the transmission network. In order to provide clearer messages to industry about where it is investing it would be beneficial to see increased transparency around such investment in order for developers to be able to assess the impact on the delivery of existing or planned projects.

Grid Owners and Operators should be adequately incentivised through their licence requirements and security standards to deliver an economic and efficient network.

Finally, the majority of Association members do not support a move away from the current net treatment of Distributed Generators for Transmission charging purposes

Other issues of interest – Gas specific

Gas Charging

The Association considers there is no overwhelming need for a wholesale review of gas transmission charging. Stability and consistency of the charging regime is important. An area which may benefit from change is that of consistency between the charging objectives in National Grid's Gas licence and Ofgem's statutory duties. The latter contemplate sustainability and the needs of future customers whilst NGG's do not. In principle this could prevent certain changes being progressed but we are not aware of this being an issue to date. We do consider that NGG's approach is broadly consistent with the principles in place. We do not consider that there is sufficient justification for a Significant Code Review on gas transmission charging at this time.

Gas Connections

The Association is not aware of its members being unfairly treated with respect to connections processes but the process is largely opaque. A more formalised transparent process would provide comfort to NGG's customers that they were being treated equally.

Association members have experienced a number of challenges in progressing connections and feel there is potential for better co-ordination between connection, capacity and NExA processes. However we have held a number of meetings with National Grid and are hopeful that progress can be made. It is generally better if industry finds solutions to issues itself rather than regulatory intervention being required.

We therefore do not consider that NTS gas connections should be subject to a Significant Code Review at this stage, but recognise this may be an option in the future if the anticipated developments are not forthcoming. In any event it would be important to utilise the work done to date as valuable input to any process. In this respect it need not be incorporated into TransmiT as it may risk delivery of conclusions on the priority issues such as electricity charging.

Other associated issues include ad-hoc processes and revenue drivers; we consider there is scope for improvements in both these areas but that these may be progressed via the UNC and in the case of revenue drivers between Ofgem and NGG. The setting of revenue drivers is a process beyond the influence of project developers yet can impact on project timescales.

If you have any enquiries regarding this response please feel free to contact Barbara Vest, Head of Electricity Trading on 07736 107 020

Yours sincerely

David Porter OBE
Chief Executive

(By email to Project.TransmiT@ofgem.gov.uk)