

Terms of reference

Access Reform Options Development Group (“ARODG”)

Group composition

Chair: Colin Sausman (Ofgem)

Members: Mark Copley, David Hunt, Sundeep Klair (Ofgem), Nick Pittarello, Adam Brown (NGET), Danielle Lane (Centrica), Richard Ford (BWEA), Terry Ballard (RWE Npower), Mark Petterson (Warwick Energy), Paul Jones (E.on), Mike Davies (Wind Energy), Simon Lord (First Hydro), Rupert Judson (EDF Energy), Malcolm Taylor (AEP), Robert Longdon (Airtricity), David Densley (SSE), Jim McOmish (SP), Keith Miller (Teeside Power), John Capener (British Energy)

Objectives for electricity incentive development

Any models presented at the ARODG should be assessed against their ability to meet the objectives identified below. There are:

- ◆ **Promotion of competition.** The arrangements should promote competition between industry participants, where possible facilitating market entry.
- ◆ **Efficient network development.** Transmission companies should have incentives to optimise the use of existing capacity. In addition, demands for capacity should be appropriately signalled, ensuring that transmission licensees have sufficient information to efficiently allocate and provide capacity.
- ◆ **Rewarding focused and timely delivery.** Licensees should be rewarded for responding dynamically to changing circumstances to develop their networks in an economic, efficient and coordinated manner.
- ◆ **Appropriate allocation of risk.** Risk should be allocated appropriately between transmission companies, network users and consumers, and the rewards available to transmission companies should be appropriate to the risks they face.
- ◆ **Simplicity and transparency.** Access arrangements and associated incentives should form a coherent whole, recognising interactions between different aspects of transmission policy, and should be capable of being implemented as simply and transparently as practicable.
- ◆ **Preventing undue discrimination.** The mechanisms developed should prevent undue discrimination between classes of users.
- ◆ **Minimising implementation costs.** The arrangements should not impose undue implementation or administrative costs on industry participants, recognising that such costs might be expected ultimately to be passed on to consumer.
- ◆ **Compliance with applicable legal requirements.** Such as those within the Electricity Act, the Energy Act and relevant European law.

- ◆ **Promoting social and environmental objectives.** Any proposals should be consistent with Ofgem's wider statutory duties, reflecting the direct impacts that the transmission systems have on the environment, as well as the role the transmission systems play in facilitating broader social and environmental objectives

Scope

The scope of the matters for consideration by the ARODG is confined to those relating to potential amendments to the existing transmission access arrangements and the associated development of necessary incentives consistent with the objectives identified above. The scope shall include the potential for the development of a range of models for amending the existing mechanisms for allocating transmission access rights and associated financial commitments from users before, during and after construction. The Group will consider the potential costs of implementing any model and associated amendments to industry codes or licences.

It is important to note that the group is a development group and not a decision making body. In particular, nothing presented or discussed at the group can have the effect of fettering the Authority's discretion in relation to any decisions it takes on transmission access or wider electricity incentive issues.

Terms of reference

1. Consider and comment on any proposal brought forward by a member of the group, including TOs and Ofgem, in regard to the extent to which they would:
 - ◆ Deliver against NGET, SPTL and SHETL's licence conditions
 - ◆ Deliver against the identified objectives
 - ◆ Impact upon other industry codes, licences or associated aspects of electricity transmission or distribution policy. In particular consider interactions where incentives on transmission licensees may need to be developed.
 - ◆ Benefit from refinement and enhancement by the Group.
2. Where appropriate, identify and discuss potential alternative proposals and the extent to which they would:
 - ◆ Deliver against NGET, SPTL and SHETL's licence conditions
 - ◆ Deliver against the identified objectives
 - ◆ Impact upon the other parts of the regime or require the consequential development of incentives on transmission licensees.

Deliverables

- ◆ **Develop a range of 'straw-men' identifying changes to access arrangements.** The key objective of the group is the development of a range of straw men identifying potential changes to access arrangements. This process will require quantification of the costs and benefits to be gained from access reform, and the identification of associated changes to industry codes or the need for contingent incentives. Any straw men developed by the Group should be analysed and critiqued by the working group such that they may pave the way for code modifications and amendments
 - Industry code change – needs to be industry driven
- ◆ **Access related incentives.** Depending on the detail of any straw-men, there may be a need for contingent incentives to support the access regime (for example relating to the timely delivery of capacity). The group, in conjunction with Ofgem, should develop the key principles and high level mechanics of any such schemes.
 - Licence change - can be Ofgem driven
- ◆ **Publication of group findings.** Detail of the working group's discussions, straw-men and findings will be made public via Ofgem's website.