

Access Reform Options Development Group

Colin Sausman

Associate Director, Transmission

8th March 2006

Introduction and scene setting

- Purpose of today
- Process to date
- Scope/Terms of Reference
- Deliverables
 - Interaction with the price control
- Administration
- Next steps

Purpose of today

- Start developing options
 - Including the no change option
- Facilitate discussion of any straw men/options put forward
- Set out timetable and deliverables, and discuss ways of working
- Review next steps

Scope of the ARODG

Mark Copley
Senior Analyst, Transmission


8th March 2006

Process to date


- On the 16th February seminar Ofgem identified a number of elements of the existing regime which may not work in the best interests of consumers.
- There was broad acceptance that the transmission access arrangements, brought into focus by the GB queue, merited consideration.
- That Group called for Ofgem to convene a Working Group.

Summary of current situation


- Capacity is now scarce




Queue of 10GW of applications in Scotland
- Rationed on non-economic criteria



Queue prioritised by **date of application**.
- Free reservation of capacity for existing players while new people wait



Existing users have an open-ended access right – which can be reduced at short notice. **New users** wait until wires are built and secure cost of new wires
- Lack of info on when capacity will be freed up for new people



Firm commitments on demand for future capacity **by existing users** could free up capacity and avoid need for investment

Issues associated with current situation

Efficient investment and information

- Significant potential costs to consumers of too much investment, or investment in the wrong place
- Good quality information from new and existing users is key to efficient investment
- Current arrangements do not generate best information – limited extent to which information is financially backed
- Poorly defined access rights might further constrain quality of information

Competition and new entry

- Evidence that volatility, in particular, of Final Sums could be a barrier to market entry
- Free reservation of future capacity for existing parties could also be a barrier to market entry
- Market entry is key to protecting interests of consumers through competition
- Also, market entry = progress towards Government targets for renewables in this context

Draft Terms of Reference

- The T.O.R Identify a range of objectives – which broadly reflect Ofgem's statutory duties.
- These objectives should be used to assess any option developed by the Group.
- Any comments/ alterations?

Strands of Work (1)

- **Identify a range of options in relation to:**
- **Long term capacity release**
 - What triggers the release of long term capacity?
 - What form does a long term capacity product take?
 - Which generators purchase long term capacity?
 - What are the obligations on users?
 - What is the transmission sector's obligations?
- **Short term capacity release**
 - How are competing requests for capacity addressed?
 - Can alternative products increase available capacity?

Strands of Work (2)

- **Pre-Commissioning Security**
 - Can volatility be reduced?
 - What level of risk is it appropriate for consumers to face?
 - How does this interact with long term capacity purchases?
- **Charging**
 - What price does a user pay for capacity?
- **Revenue restriction interactions**
 - How should any changes be reflected in allowed revenues and incentive design

Questions/ Comments

- Is this a sensible way to unpack work to develop options?
- Are there any other key questions?
- Do you agree with Ofgem's suggested approach?

Timescales and Deliverables

David Hunt
Senior Analyst, Transmission

8th March 2006

Timetable and process

- ARODG to meet weekly between now and Easter
- Meetings will be 10am to 4pm
- Deliverables of the group will be:
 - A range of options for addressing each of the areas identified earlier
 - The publication of all discussions on the Ofgem website
 - A report for consultation
- The group is not a substitute for modification processes. Any Mods will have to be raised by industry, and progressed through normal channels

Interactions with price control design

- Ofgem will consider related incentive issues in light of models raised by the Group.
 - The Group is encouraged to consider the need for any incentives to complement options.
- Where appropriate Ofgem will discuss incentive design questions with the Group.
- Ofgem will separately progress work with TOs to identify the implications of any models on them.

ARODG Report

- The key deliverable is a report for consultation
- What should this include?
 - Detailed description of the Group's discussions
 - A range of possible options
 - An assessment of any options against the objectives set out in the Terms of Reference
- Who should be responsible for drafting it?
 - Ofgem?
 - Group members?
 - Combination?

Administration

- Dates of future meetings
 - 14 March
 - 23 March
 - 30 March
 - 6 April
 - 13 April
- Companies are urged to prepare options for discussion at subsequent ARODG meetings
- All material will be published on Ofgem's website, www.ofgem.gov.uk, in the TPCR work area

Agenda for next meeting

- Is it possible to address the issues highlighted previously in order of priority?
- What is the role of attendees in stimulating debate on these issues?