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9 May 2006

Dear Colleague,

**Access Reform in Electricity Transmission – Working Group Report and Next Steps**

The ability for electricity generators to gain access to the transmission system in a timely fashion is critically important for the operation of competitive wholesale markets. This is particularly so at a time when companies are making decisions about investments in new generation plant. There are significant benefits to the market and to consumers if network investment can be relied upon to be delivered in the right place at the right time. The costs to consumers and the impact on the market of under-investment or over-investment can be material. We should therefore aspire to arrangements which minimise these risks.

Over the past twelve months a number of industry parties have raised concerns about how the arrangements through which generators obtain access to transmission capacity have coped with the demands currently being placed on them. In some cases it has been claimed that the arrangements operate in a manner which blocks (or delays), rather than facilitates, market entry. The transmission companies have also raised concerns about difficulties in planning investment on the network in the context of large number of applications for new transmission connections, particularly from wind generation projects in Scotland. We have gathered further feedback through our consultation on the current Transmission Price Control Review (TPCR).

Our starting point in the light of this feedback, and our own consideration of the issues, is that there are significant improvements that could potentially be made to the access arrangements, which would better facilitate competition and would improve the ability of the transmission companies to plan and deliver new network capacity where it is needed. This is an important issue for Ofgem because of the potentially significant impact on competition and on consumers. It also has relevance to wider Government objectives, including progress towards the 2010 targets for renewable generation.

## **The Access Reform Options Working Group**

Ofgem has taken active steps to facilitate debate on options for change. In February we formed the industry-wide Access Reform Options Development Group (ARODG). We chaired, and provided administrative support for the group. ARODG's task was to review and document the range of options for access reform. This task has now been completed, and I would like to thank group members for their time and effort, and the constructive manner in which the work has been undertaken.

Today the group has published its report. This is an important document, and will hopefully provide a valuable reference point for the development by industry parties of detailed options for change. While there are different views as to the most appropriate options for change, there seems to be broad consensus that some form of change is needed.

### **Ofgem's role**

The detail of any change proposals will need to be developed through the appropriate governance processes. These are, quite properly, industry led processes. Ofgem's role is to consider specific proposals for approval at the end of the process, and prior to implementation. The ARODG report and this letter do not fetter Ofgem's discretion in considering any subsequent change proposals. Each proposal must be considered on its merits in the light of the information available at that time.

Ofgem also has a role to highlight issues that we consider need to be addressed. In practice, this can involve setting out some preliminary thoughts, in the light of our principal objective and duties and given the information currently available, on how the issues might be addressed. This can be useful in providing a reference point for consultation.

We believe that there is a value in setting out some provisional thinking in the context of the access reform debate. In part this reflects the wide range of interactions between the different aspects of potential reform, and the need to any proposals to fit together as a coherent package. It also reflects the potential benefits of any beneficial reforms being capable of being implemented sooner rather than later.

On the basis of the information available to us at present (including discussions at the working group), we would like to make the following observations as further context, in addition to the ARODG report, to inform any change proposals being considered by industry parties:

- Other things being equal, greater certainty for new parties seeking connection to the network over (a) the date by which access rights can be provided (recognising practical constraints, such as the need for consents, faced by the transmission companies) and, (b) the level of financial commitment required to be provided, might be expected to promote competition;
- Consumers should continue to be protected from the risk of investment being incurred unnecessarily – and arrangements whereby network users, in effect, provide security against this risk would appear to be an appropriate means of achieving this objective;

- However, we think there might be a case for changing both the overall level of security provided by generators, and the allocation of security requirements between new and existing generators. Options which reduced (and made more certain) the total level of financial commitment required of new generators before access rights are granted, while partially offsetting this by increasing the level of commitment required of all generators on an ongoing basis, would appear to have merits in terms of competition and in terms of efficient planning of network investment. We recognise that this changes the balance of risk borne by consumers, and in particular involves consumers bearing more risk while investment is being completed to accommodate prospective new generation.
- Given the large queue of applications for grid connections (and the reasonable expectation that only a proportion of these projects will actually proceed), there would appear to be merit in arrangements which enabled the strongest projects to identify themselves at an early stage by committing to pay for capacity for a longer duration than under the current arrangements – and that the allocation of future capacity by National Grid might be prioritised on this basis.
- The current range of access products be available to generators should be assessed to ensure that it is consistent with making maximum use of the available network, and a reasonable level of expected constraint costs. Further, opportunities for existing access rights to be repackaged and reallocated if there are willing buyers and sellers should be explored fully – including National Grid's role in providing information to facilitate such activity.

### **Responding to the working group report**

Views are invited on the ARODG report by 7 June 2006. Responses to the consultation should be sent electronically to Mark Copley at the following address: [mark.copley@ofgem.gov.uk](mailto:mark.copley@ofgem.gov.uk), or in hard copy to:

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All responses will be circulated to all group members, and will be published. If you wish to provide feedback to Ofgem on the matters raised in the report on a confidential basis, then please write to us separately.

We are planning on holding open meetings in Glasgow and London following the conclusion of the consultation period. Members of the group will be available to answer questions. Dates of these meetings will be confirmed shortly. If you wish to attend either of these open meetings, then please contact [mark.copley@ofgem.gov.uk](mailto:mark.copley@ofgem.gov.uk), clearly stating which meeting you wish to attend.

Ofgem will keep under review whether ARODG needs to reconvene at any time. However, the current view of the group is that the issues, and interactions, are sufficiently well defined in the report to allow them to be taken forward by interested parties within standard governance frameworks. Ofgem will monitor developments closely and, where necessary, will consult on any amendments to licences part of the ongoing transmission price control review process.

Yours sincerely,

A handwritten signature in blue ink that reads "David Gray". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

David Gray  
**Managing Director, Networks**