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83/06: Access Reform in Electricity Transmission – Working Group Report and Next Steps

Dear Mark,

Thank you for the opportunity to respond to the above consultation. Our response considers the three areas identified in the ARODG report before concluding with some general comments regarding the way forward.

Final Sums

We are of the view that any changes to the Final Sums approach should continue to require the potential developer to provide a serious commitment to the work required in order for connection to take place. It should encourage developers to apply for connection in a timely manner and not to merely reserve capacity.

Our preferred approach would be for the construction agreement with NGC to specify a number of milestones to be met by the developer if transmission capacity is to be reserved for the project. This would provide a mechanism for limiting initial liabilities until some agreed milestone was met; for example the necessary consents for the project. The milestones should present a sufficiently high hurdle so as to discourage speculative developers but at the same time realistic development would not be exposed to unmanageable liabilities with project design and grid connection costs sufficiently secured.

If projects or NGC failed to meet these milestones, there would be re-negotiation of connection dates. If failure by a developer to meet a milestone results in capacity being available for reallocation to other parties, the primary consideration for this reallocation should be whether the new project has the necessary consents to proceed.

This approach would require an enhanced commercial relationship between NGC and its customers such that the timing of key milestones associated with liabilities can be discussed and agreed between parties. It should also include a process to enable applicants to discuss and agree revisions to milestones where this would result in a

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more economic and efficient outcome for both the applicant and NGC.

Restricted Rights

The report contains considerable discussion on the issues of the 'connect and manage' approach and the development of 'Interim TEC' products. We have two concerns, firstly if access to the system is guaranteed with NGC assuming the risk of non-delivery of capacity; this may lead to higher costs which will ultimately be borne by customers. If this approach were to be adopted, consideration should be given to how additional constraint costs should be allocated. Secondly NGC provided some information to the ARODG that indicated that the likelihood of 'Interim TEC' products being available was extremely limited. Further information is required before this option can be fully evaluated.

Unrestricted Rights

Ofgem's covering letter notes that there may be a case for change in the allocation of risk between existing and new generators and recognises that this changes the balance of risk borne by consumers. Clarification from Ofgem is required as to exactly what level of risk it is felt it is appropriate for each party to bear.

It is not clear that requiring existing generators to commit to future years use of system charges will provide better information regarding investment decisions to network owners. Any commitment is likely to be a less significant driver of any closure decision than those of political and regulatory policies such as LPCD and EU-ETS.

General

NGC have recently consulted on a number of issues raised in the ARODG report with a view to introducing a number of immediate reforms in advance of the conclusions of the price control process. We therefore attach our response to that consultation.

Ultimately the decision as to which of the models is adopted will require approval by Ofgem, whether it is implemented directly through the price control process or as a result of Code amendments submitted by industry participants. It is important that these decisions are informed by thorough Regulatory Impact Assessment.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours Sincerely

Terry Ballard
Economic Regulation