

## RWE NPOWER

### RESPONSE TO NGC CONSULTATION 'MANAGING ACCESS TO THE GB TRANSMISSION SYSTEM CONSULTATION'

We welcome the publication of this document following the Access Seminars in February 2006. We believe that the current methodology is proving to be a significant barrier to the efficient connection of new generation. This needs to be remedied on an urgent basis. However, it is not clear that many of the issues raised can be satisfactorily resolved on an enduring basis before the conclusion of the Transmission Price Control process and significant input from Ofgem.

We recognise the consultation document identifies a number of alternative arrangements for the form of Final Sums that seem superficially attractive. However in our response we would not wish to propose a 'winner' but outline our criteria for an alternative mechanism; we clearly recognise there is a need for change.

We note Ofgem's response to 'Our Energy Challenge' dated 8<sup>th</sup> May 2006 states 'we support abolition of Final Sums Liability in its current form, and its replacement with an alternative which acts as less of a barrier to connection of renewable generation'. We also note similar sentiments expressed in Ofgem's covering letter that accompanied the report of the Access Reform Options Development Group. Given the flexibility of the current arrangements, it may be worth considering a number of pre-emptive changes to the current arrangements that recognise these sentiments. In summary these are:

- Amendment of the existing Final Sums arrangements so that commitment is more closely linked to project milestones. This could be achieved by amendment to the Construction Agreement;
- A more proactive approach by NGET in its relationships with developers;
- Greater transparency of the process for establishing clusters either by establishing a "cluster methodology" for approval by Ofgem or incorporating appropriate amendments into the CUSC;
- There may be some merit in the provision of enhanced information to the market place;
- Any reallocation of capacity rights should recognise those projects that have the necessary consents in place to enable construction to commence;
- The opportunity for provision of Non-TEC rights appears limited but should be investigated further;
- In the event that a new Final Sums methodology is adopted, revised offers should be issued to any projects that have declined offers based on the existing arrangements.

Our detailed comments on each of the five issues raised are given below:

**1) Arrangements for seeking financial commitments from Users benefiting from transmission reinforcements and the balance of risk between NG, consumers and Users (including those already connected and those with a signed offer).**

The current Final Sums arrangements were designed to indemnify NGET and consumers against the risk of unnecessary transmission investment costs in the event that a project does not continue. However the introduction of the clustering of projects has led to the situation where the liability of any developer is more closely linked to the plans and actions of others in

the cluster as opposed to the actions of the individual developer. This is of particular concern where a developer requests connection but finds the date offered is considerably delayed because of other works but at the same time, the developer is required to provide significant security immediately upon signing the construction agreement with NGET related to those third party works. Therefore in any alternative mechanism the 'Financial commitment' should not necessitate the user having to sign up to a liability that is unlimited, non-firm and subject to the actions of third parties.

We are of the view that any alternative approach must represent a serious commitment by the developer and should increase the incentive on parties to request connection to the system within realistic timescales without the perverse incentive merely to reserve capacity. Equally it should not provide developers with a mechanism that allows them to procrastinate. An alternative mechanism should ensure priority to those connections where projects can connect and have the necessary consents and pre-requisites to build.

Ideally we would welcome an arrangement whereby the construction agreement would specify a number of milestones which must be met if transmission capacity is to be reserved for the project. This would also provide a mechanism for limiting initial liabilities until some agreed milestone is met; for example the necessary consents for the project. This would mean that developers are not exposed to unnecessary financial liabilities, but equally enable the continuation of the project design and the grid connection.

The alternative mechanisms proposed in the consultation all involve the transfer of financial risk to either NGET or consumers. We recognise that any reallocation of risk in this manner can only be sanctioned by Ofgem. However given our earlier statement, we believe there are a number of pre-emptive changes that could be implemented in the short term which do not necessitate additional risk to be carried by NGET.

There are two aspects of the clustering methodology that cause concern and could be remedied without additional risk being carried by NGET. Firstly, NGET has complete discretion with regard to how clusters are configured and established with little or no opportunity for challenge. Secondly the level of indicative Final Sums Liability derived from the clustering methodology has resulted in requests for large security sums but with little detail of how this figure has been calculated.

- (i) On the first of these points, we would support the development of an enhanced commercial relationship between applicants for connection and NGET such that the timing of key milestones associated with liabilities can be discussed and agreed between parties. In addition, a process is required that would enable applicants to discuss and agree revisions to the milestones where this would result in a more economic and efficient outcome for both the applicant and NGET.
- (ii) On the second point, we believe it is incumbent on NGET to provide greater transparency of this information such that parties can understand their liabilities. This is consistent with NGET's licence obligations.

We welcome NGET's recent publication of a Final Sums Liability methodology as a helpful first step but would like this to be expanded to include details of how clusters are established. This information should either form part of the Connection Methodology statement and as such, be approved by Ofgem or alternatively become part of the CUSC where it would be subject to transparent governance.

## **2) Provision of enhanced information to the market place**

We could see some advantage in wider information provision by NGET possibly assisting a User in estimating the impact of third party actions under the current clustering arrangements. NGET contend that by identifying other developers within a group it would enable parties to reach an understanding regarding the actual number of projects that could ultimately be built. However we believe that this is unrealistic given that parties are competing to secure connection. Nevertheless, NGET are ideally placed to facilitate group interactions if a view on the optimum level of investment for the group can be taken, and provided that NGET takes active management of the interactions between applicants for connection.

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We believe that the industry would benefit from the provision of enhanced information relating to the transmission system that would enable developers to better manage grid connection application with regards capacities, timescales and cost. In particular, NGET's detailed plans for transmission reinforcement, the additional connection capacity that is expected to become available and the dates on which it is expected to occur. This information could be made available within the Seven Year Statement.

### **3) Reallocation of capacity rights**

We would welcome a revised mechanism for the appropriate reallocation of capacity rights to those projects best positioned to exercise the available capacity. We also agree that any amended mechanism needs to be transparent, robust, objective and consistent with Licence obligations.

Sequential reallocation will perpetuate the potential discrimination that was introduced by the BETTA transitional arrangements. However we recognise that any attempt to introduce a Balanced Scorecard approach will inevitably lead to challenge by those parties who feel they are being disadvantaged.

If criteria for reallocation were deemed to be required, the emphasis should be placed on the allocation of capacity rights to those projects that have the necessary consents in place to enable construction to commence. If this is not done it will perpetuate the sterilisation of transmission capacity and prevent viable generation schemes from progressing.

### **4) The means by which the contractual terms of bilateral agreements may be changed, for instance to change connection dates.**

We support the view that it is appropriate to make bilateral changes via an Agreement to Vary, without the need for a modification application to be submitted, providing there are no material impacts on Transmission Licensees and other Users. The requirement for Users to submit a modification application in order to change a bilateral agreement is, presumably, based on the relatively low test of materiality specified in the CUSC (£10,000). For relatively straightforward changes, submitting a modification application invariably introduces a minimum delay of three months and incurs an application fee significantly in excess of £10,000 for the User.

### **5) The provision of access rights prior to the completion of the identified transmission reinforcements (so called non-firm or less firm rights, but hereinafter referred to as Non-TEC rights).**

We note with concern that National Grid anticipates making extensive use of intertips to manage the capacity limitations on the England/Scotland border and the north of England.

We do not fully understand how this would be achieved within the current definitions of an intertripping scheme and would welcome further clarification of these plans.

The proposal to introduce new access products was considered during the recent ARODG discussions. At the request of the Group, NGET presented data on the likelihood of providing a greater access in Scotland had LDTEC been available during 2005/06. NGET concluded that with the benefit of perfect hindsight, the product would have only been available for a short period of time and in practice, would not have been offered in operational timescales.

We suspect that this remains the situation, however, some form of alternative access rights which enables connections prior to completion of transmission reinforcements could be very beneficial to new generation on the proviso that long-term firm access could be assured.

We would welcome further information from NGET on what is potentially a complex issue.

#### **Other points not specifically raised in the consultation**

We note that no reference has been made in the consultation to the Construction Agreement that a connecting party is required to enter into. We have made our views known previously that the industry would benefit from a number of changes to the Construction Agreement. In particular, we propose that the Final Sums liability be limited by the Secured Amount Statement, the provision of Clause 2.11 is such that Appendix H1 may only be varied by mutual agreement, and that Appendix H1 specifies the party's share of the reinforcement works.

NGET's consultation recognises a number of access issues have arisen during the transition to BETTA and more importantly during the processing of a number of applications for connection, particularly in Scotland since the beginning of 2006. Those earlier offers were based on the existing Final Sums arrangements, which developers found were too great to bear. Some of these offers may have been accepted if an alternative user commitment model had been place. Therefore we believe there should be some recognition of this and with the re-issue of such lapsed offers.