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Dear Mark,

Report by Access Reform Options Development Group (ARODG) on a framework for considering reforms to how generators gain access to the GB electricity transmission system

Thank you for the opportunity to respond to this progress report. This response is submitted on behalf of ScottishPower Energy Wholesale, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

Ofgem and the Grid Companies do not seem to be aligned with the Government objectives of delivering a reduction in CO2 emissions. ScottishPower has concerns with the existing Final Sums approach, which requires users to carry the entire risk of providing the connection, and is therefore not part of a coordinated response involving risk-sharing by National Grid, users and consumers in delivery of the Government's renewable energy targets.

The key to resolving the existing backlog of connection applications is development of an objective and transparent methodology for the identification of projects with the highest probability of delivery and assigning priority to connection of these projects.

Security

Developers require a transparent mechanism for the calculation of Final Sums Liability which delivers certainty on the final value on a firm profile which matches the applicant's own development profile. The principal concern with the existing approach is that Final Sums Liability may become due before a developer has secured the necessary consents and before final commitment can be made to the project. Final Sums Liability arises in the earliest and highest risk stages of a project.

An approach that reduces the initial level of security required before necessary consents are achieved and then increases post consent is most appropriate and requires the development of objective measurement of project progress. The availability of "break

points” at which the developer could request delays to the programme would allow the flexibility to accommodate delays in obtaining consents without using the Modification Application process with its associated charges.

The alternatives discussed in the report address the issues of uncertainty over the total liability and delivery date for the connection and would resolve some of the uncertainty facing developers. Use of “Date Stamped FSL” removes uncertainty over the final cost of the connection and the risk of withdrawal by shared connection users. A “Local FSL” methodology achieves a balance of risk between the Transmission Licensee and the developer and lowers FSL commitments. Use of a “Fixed Sum”, set at a value that demonstrates real commitment by the developer, likewise achieves a balance of risk between the Transmission Licensee and the developer. However, such a transfer of risk to Transmission Licensee’s would need to be reflected in their regulated price controls and could lead to higher charges for all users.

The final agreed methodology should be codified to ensure transparency and consistency of application.

Restricted Rights

ScottishPower supports the development of alternative access products delivering non-firm access to allow earlier development of renewable projects. This would support achievement of the Government’s renewable energy targets. The use of active management of the transmission and distribution systems could reduce the level of constraints to a level where early delivery of renewable projects remains viable despite reduced compensation rights. This should be seen as a short-term measure until unrestricted access rights can be made available. Where non-firm access rights are granted there must be clear rules defining when access can be restricted.

The ability to reallocate capacity to projects with the highest probability of success should be facilitated by National Grid to ensure the earliest delivery of the Government’s environmental targets. However, the ability to trade capacity could lead to additional speculative applications being submitted (or projects with a low probability of success to remain in the access queue) to secure capacity rights for trading and thus exacerbate the existing problem.

The preferred solution is for projects that demonstrate progress against a clearly defined set of objective milestones to be “promoted” in the queue and allowed to proceed ahead of projects that may have secured access but cannot secure the required consents. This would eliminate “queue blocking” by projects that hold on to access rights while not proceeding to timetable.

Unrestricted Access

The granting of unrestricted access rights at a future date removes some of the uncertainty from developers but transfers significant risk to the Transmission Licensee - risks over which they may have no control such as obtaining planning and landowner consents. While Transmission licensees should be incentivised to deliver capacity within firm timescales, the balance of risk-bearing between the Licensee and existing users through the recovery of constraint costs needs to be addressed.

The options discussed in the report of granting access after a firm time period lacks the flexibility required for the diverse nature of projects under development and could result in perverse signals to developers. In particular, applicants could be encouraged to remain in the queue with the potential for constraint payments after a set time period although their projects have a very low probability of delivery. An extreme case could result in speculative applications for access in areas of known constraint.

The issue of ongoing commitment from existing users should not be confused with the requirement to provide security to the transmission operators for the provision of new capacity. Mechanisms exist within the Grid Code for the provision of information on future capacity requirements and, if necessary, these can be enhanced to ensure the provision of accurate and timely planning information.

Existing users have purchased an enduring right to connect to the network that cannot be rescinded without fair compensation. Requiring existing users to provide security by way of a multiple of annual TNUoS charges would be discriminatory as it would require those users in high TNUoS charging zones to provide a disproportionately higher share of the overall security burden. Indeed, users in negative charging zones may not be required to provide any security. Existing users have no means of managing the additional risk arising from new connectees and the additional burden would have to be reflected in higher prices to the end customer.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

James Anderson
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