RESPONSE TO THE ARODG REPORT
From
THE ASSOCIATION OF ELECTRICITY PRODUCERS

The Association welcomes the opportunity to contribute to the development of the access and charging arrangements and applauds Ofgem's early and ongoing involvement of the industry. The Association of Electricity Producers (AEP) is the UK trade association representing electricity generators. It has some 90 members ranging from small firms to large, well-known PLCs. Between them they embrace nearly every generating technology used in the UK. Many member companies have interests in the production and development of renewable energy where the government has set ambitious targets for development over the next decades.

Introduction

1) The Association welcomes the ARODG Report as a fair summary of the work undertaken by the group. Hence, we do not wish to go in detail through the work areas summarized in Sections 1-5. However, we believe it would be useful to emphasize one aspect of the Illustrative options shown in Section 6. Each option contained a combination of elements and whilst these combinations are valid ones, the elements can and should be considered singly as well as in other combinations. Below we set out our comments arising from the issues raised in Ofgem's cover letter and some more general comments.

General Comments

2) Regulatory and Policy Context
The electricity industry is fully engaged in the Energy Policy Review. We anticipate that the outcome of the review will provide greater policy framework clarity, particularly with regard to the longer term arrangements for the internalisation of the cost of carbon in the market, support for renewable energy sources, and planning arrangements. Such clarity will directly impact the ARODG considerations in at least three ways:
    - Clarifying the regulatory context and hence allowing developers to make informed judgements about locations, technologies, timings and sizes of new generation;
    - Clarifying the context within which decisions about extending or foreshortening the lives of current generation plant can be made by generators;
    - Streamlining and improving the planning and consent process for infrastructure and new generation projects.
3) The recently established OTEG group will result in developments to access arrangements that will have profound impacts on charging arrangements on-shore. Offshore developments will also impact the disposition of generation and demand and hence the ease with which onshore generation can be transported to market.
4) It should be noted that whilst the Government has challenging targets for renewable generation, these need to be seen alongside the Government's affirmed intent that market-based mechanisms will the primary means of delivering their energy policy across the spectrum, and that therefore discriminatory interventions are to be avoided.

5) National Grid's Recent Consultation on Managing the Connection Queue

The Association welcomed the parallel consultation by National grid about managing the Connection Queue. One issue which stood out in the NG consultation was governance. The Association recognises that the current lack of industry code governance for the management of connection is a substantial short-coming that exposes generator/developers to substantial risk. Nevertheless, we are where we are and we would suggest that we make a virtue of this position. Ofgem, NG and the rest of the industry should work together now to try to optimize the connection management arrangements, noting that the lack of formal change management controls should allow rapid progress to be made in developing an improved process. Once the process is good enough (i.e. not striving needlessly for perfection), it should then be imported into the CUSC, its obvious home, and thereafter be subjected to the normal CUSC Governance process. The Association response is attached with this consultation response, for completeness.

Detailed Comments

6) Connection Security for New Connectees
   a) Date-Stamped FSL: The Association supports a reduction in the initial level of security required for new connectees, aligned with a firming up of the profile of expenditure post their achievement of consented status. In the ARODG report this is first referred to as 'date-stamped FSL'. In particular, we suggest the proposals from E.ON made at the 16th February seminar as summarised in paragraph 3.19 need serious assessment and development. It should be noted that Npower have also provided detailed proposals as to how this could be achieved by modification of the existing CUSC connection agreement documentation. It should be noted that the proposals for security of a number of years of TNUoS would need to address the issue of the year-on-year volatility of TNUoS, if these are not to re-introduce uncertainty.
   b) Planning Risk: The Association does not support imposing planning risk on NG. If NG are forced to bear planning risk this will only increase energy costs to all as they would be forced to take a prudent view of the risk to which they would be exposed. They cannot manage this risk.
   c) NG's Speed of Achievement of Section 37 consent: The point is made that NG should not be delaying their work in achieving Section 37 consent. We do not believe that achievement of planning and other consents should form part of some incentive arrangement. However, we would suggest that Ofgem's regulatory oversight could involve an occasional operational audit or the requirement for report from NG in the case that consent takes more than some benchmarked period. Also, in agreeing the price control and the anticipated increase in the asset base, Ofgem are putting their weight behind the intended investment. This should explicitly be recognised in the planning process. In this way Ofgem could best serve the customer interest by reducing the delay in developing new infrastructure. The recent announcement by the Secretary of State on advice on the balance of national and local interest in the planning process for infrastructure investment is to be welcomed. It should be noted that generation projects, regardless of technology, face a variety of planning and other consent issues that could be ameliorated by similar government action.
   d) Governmental Policy and Planning Risk: If government policy requires expenditure by NG ahead of planning consent, then the risk of stranded assets is political Force Majeure and should be borne by the population at wide for whom the government is working; this may not be best achieved by applying these costs to all connected parties, as there is not an automatic pass-through of costs in a competitive market..

7) Access Products
   a) The ARODG considered a number of different access products. The current TEC products all have the same commercial firmness at the point of issue to generators.

This enables a similar approach to charging for them. The Association believes there is merit in exploring interim and longer-term products.

b) Interim Products: The options of volume or compensation restriction or hybrid options may result in access products that are good enough as interim products to allow new connectees to gain sufficient access with sufficient firmness to deal with the possibility of medium term constrained access, without imposing substantial additional constraint costs on other connected parties. In developing such products, a number of issues would need to be addressed:
   i) How such products would be taken account of in the charging base and model for TNUoS charges?
   ii) How such products would be priced, considering there possibly inferior attributes to the normal TEC family of access products?
   iii) How such products would sit in the hierarchy of operational action by NG in the event of a constraint arising?
   iv) Would the income from these products be stirred back into TNUoS via a k-factor type of approach, or used to set off any additional BSUoS?
   v) The price, precedence and attributes of each new product will have to be seen in the context of the existing set, so that gaming opportunities are not established between access products.

c) The Association does not support an approach whereby a generator that could not normally be offered full TEC because of infrastructural insufficiencies would be given TEC and a licence to receive full constraint payments, regardless of whether or not there was any possibility of the generator being able to transport its energy to market. This would merely increase overall constraint costs, without increasing the amount of energy being transported and would therefore add to the energy price for customers. For renewable generation it would effectively also result in double counting of the value of a ROC: once when constrained and once when finally generated.

d) The Association believes the current governance arrangements for the CUSC have allowed the development of the current TEC products. They are adequate to the development of further new access products.

e) Longer-term products: During the ARODG discussions the attempts to consider >12m products was not very successful. There may be merit in further work here, but the NG operational issues as well as the charging implications are not trivial.

8) Other Access Options

The ARODG discussed a number of existing options and their use should not be discounted: trading of TEC between connected parties

a) Inter-trip Arrangements have already proven useful for potentially constrained new connectees;

b) TEC Trading has not yet been proved practically, but the upcoming opted in/out status under LCPD could mean that it might be attractive for some near end-of-life plant.

c) Additional Information Provision (under Grid Code OC2) by plant that is considering mothballing or decommissioning has commercial issues associated with it, but could allow NG to make better planning decisions.

9) Rights of Existing Connectees

a) Existing connectees have purchased the right to connect to the network, until recently by paying a deep connection charge which generally included capitalised future costs of operation and maintenance. This right is enduring and cannot be rescinded without fair compensation. The value of the right to be connected may exceed the depreciated value of the connection assets and any compulsory removal would be subject to legal challenge

10) Overall level of security

a) The Association sees no compelling reason why changes in security obligations for new connectees should be linked to changes in security requirements for existing connectees. Placing an additional burden on existing connectees will definitely increase the overall cost of electricity to the end customer by millions of pounds per annum. It is not just a re-allocation of risk. The burden will be borne by generators of varying size and financial strength, so will affect those with lower credit rating more. This will be a discriminatory burden that will therefore impact on the competitiveness of the existing market players

b) Imposing such additional security requirements for existing connected parties would not enhance investment decisions to network owners. For those generators considering decommissioning, the additional burden of multiple years of TNUoS will lead to a sunk cost that will then not inform the decommissioning decision for a number of years. For other generators, decisions about their commercial future are primarily determined by other political regulatory matters such as LCPD, EU-ETS, planning delays and barriers, medium-term policy on the internalisation of the costs of carbon in the energy markets, etc. For those plants that are now opted out of LCPD, NG now has much greater understanding of their glide-path to decommissioning. This certainty would not have been affected at all if the proposed additional security had been in place now.