

Mark Copley
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Ofgem
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7th June 2006

Dear Mark

**BRITISH ENERGY RESPONSE TO ACCESS REFORM OPTIONS DEVELOPMENT
GROUP (ARODG) REPORT**

Thank you for the opportunity to comment on this important report. We were please to be able to contribute to the development of the access and charging arrangement.

Key Points:

- **We are seriously concerned that the level of security associated with the creation of longer term finite access rights may be excessive and create a disproportionate burden on existing users. Ofgem need to give urgent consideration to this issue.**
- **A balance needs to be struck in relieving new users of security obligations such that existing users are not unduly exposed to additional unmanageable risk.**
- **We are not supportive of any restricted access product which makes use of volume restrictions as a basis for charging. Transmission costs are driven by capacity requirements therefore capacity should be the basis of all transmission access charges.**
- **Arrangements setting out the security requirements for new connectees should be more transparent and sensibly included within the CUSC once the outcome of the present National Grid consultation on managing the GB queue has been properly assessed.**

The report is a good summary of the discussions and work of the group. Ofgem should be commended for their early and ongoing engagement on this important issue.

We have previously accepted, in the context of the current market uncertainties associated with interpretation of the LCPD, Emissions Trading, the Energy Review and now offshore transmission development, that some reform of transmission access is necessary. We have also indicated that in principle we are not opposed to longer term finite access rights provided we are able to agree fixed tariffs for the period in question and most importantly are given first rights of renewal at the end of the period at the pre-existing TEC value.

However, an area of significant concern with such an approach would be the level of financial security users might be expected to put in place. For any company the commercial impact of having to secure (say) 5 years worth of TNUoS charges would be substantial. If such an approach were applied across the industry it would create a barrier to entry and lead to significant over collateralisation and inefficiencies. This would not appear to be a

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proportionate solution to the present new entrant problems. We would therefore urge Ofgem to carefully consider this aspect in taking this matter forward.

Rationalising the GB Connection Queue so that only the genuine projects remain is clearly a sensible aim as is the desire to cap the level of liabilities so that new users are not exposed to uncertain liabilities. There is however a balance to be struck such that the rest of the industry is not unduly exposed to additional risk.

Arrangements setting out the security requirements for new connectees should be more transparent and sensibly included within the CUSC. This would also have the virtue of allowing users to propose amendments. That said we acknowledge that the present arrangements were developed by National Grid with the intent of trying to reduce the complications associated with the GB Connection Queue and complex interactive offers. National Grid has recently conducted a consultation on managing the GB Connection Queue we would expect the outcome of this to feed into future CUSC arrangements / proposals for change.

The group did have a wide ranging discussion on restricted access rights. While it is clearly open to users to propose new products under the CUSC we would not be supportive of any access products which used a predefined volume restriction. Transmission costs are fundamentally driven by capacity and this should remain the charging basis for any and all access products.

There are two other key industry developments which bear on and interact with the work undertaken by the ARODG group. These are the Energy Review and the work of the Offshore Transmission Expert Group. Offshore transmission will result in further changes to access and transmission charging on shore. Ofgem will need to be mindful of these interactions in taking forward access reform.

If you would like to discuss this response please feel free to contact me on 01452 654182 (office) or 07774 767722.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Capener', with a horizontal line underneath.

John Capener
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Power and Energy Trading Ltd