



*taking care of the essentials*

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**By Email**

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Our Ref.

Your Ref.

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Dear Mark

**Response to a report by the Access Reform Options Development Group**

Please find attached Centrica's response to the above named consultation document.

Please do not hesitate to contact me if you would like to discuss any of the points raised in more detail.

Yours sincerely

Danielle Lane  
Contracts Manager

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# **A framework for considering reforms to how generators gain access to the GB electricity transmission system**

## **Response to the Access Reform options Development Group report**

Centrica welcome the opportunity to comment on the report produced by the Access Reform Development Group (ARODG). The work that has been carried out is timely and we encourage Ofgem to come to a speedy conclusion on the issues raised in order that new developers are not unduly disadvantaged by delays in development of the transmission network. Centrica are aware that this consultation is carried out in parallel with the ongoing Transmission Price Control review.

We have commented on the detail of Chapters 3, 4, 5 and 6.

### **Chapter 3 Security**

Centrica would like to see greater transparency in the calculation of Final Sums Liabilities (FSL). Under the current methodology it is difficult to determine how costs have been allocated in a cluster. Additionally, we do not believe it is efficient for National Grid to have in place security covering more than 100% of the estimated cost of works.

We also support the incorporation of the FSL methodology as part of the CUSC. At least, we believe the publication of a methodology statement should be a SO Licence Condition.

#### **a) Status Quo**

Centrica supports reform of the Final Sums Methodology. We do not believe the current arrangements for provision of security to National Grid are sustainable and, in some circumstances, amount to a barrier to entry for new generation. The volatility in the current regime creates too great a risk for projects without consent and provides an unacceptable level of risk for those projects with consent that are under construction.

We note, and support, the ongoing review by National Grid of the Final Sums methodology but believe that further steps could be taken. We believe a more equitable sharing of risk between developers and National Grid is necessary, as opposed to the current arrangements where 100% of the liability rests with the developer. Although we acknowledge the argument that the current arrangements protect the consumer from the risk of stranded assets, we do not believe that this approach continues to be in the consumers' best interest. Given the large volume of new development being anticipated across the network, a more strategic view needs to be taken. As such we do not believe the status quo is a tenable position.

#### **b) Date stamped FSL**

We support the date stamped FSL as we believe it will address the issue of volatility in the current FSL methodology. However, we have some concern that this approach could result in a developer being required to provide a higher level of security than is actually necessary. It may be appropriate to consider whether or not a review of the FSL curve could be considered after a project has gained the necessary consents. Although we recognise that this may cause an increase to the profile of security for some users, at this point the risk profile of the developer has changed and it may be appropriate to give a more accurate reflection of the actual costs facing National Grid.

Couple with a date stamped FSL approach, we consider it appropriate to review the works that are included in the calculation of FSL. It is not always obvious that some of the wider reinforcement works given in Appendix H are actually required for connection of a new generator. We are concerned that the current methodology may be unnecessarily increasing the consent risk to new generation (as a new connection is contingent on National Grid achieving all relevant consents and wayleaves).

#### **c) Local FSL**

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Whilst we can see merits in this approach we have concern about how it would work in practice. The definition of local works would need to be clearly defined and the interaction this would have with the current shallow connection charging policy would need to be considered. This has not been fully explored in the working group's paper.

We are also concerned that there would be no security provided against any wider works. We suggest it would be necessary to consider what works are required to allow a generator to connect and to generate. These may exceed the limits of the local works. In all cases the appropriate balance of risk between new users and National Grid needs to be found.

d) Fixed sum

We believe this option has merit and warrants further investigation. Some element of locational variation is appropriate; to better reflect the relative level of necessary reinforcement to accommodate new generation. However, we do not support the use of TNUoS as a proxy. TNUoS is a charge levied for using the network and is supposed to reflect the relative cost of transmitting electricity from various locations across GB. The charge varies on an annual basis and, and more pertinently will be changed due to the entry (or exit) of new generation from the network. We do not see how this could provide an appropriate and cost reflective mechanism for securing payment for new works.

Finally, we note the comment that some other treatment would need to be found for those wishing to site in negative charging zones. As far as possible arrangements should be consistent across the network and allow all developers to refer to one set of arrangements. We do not support any mechanism that deliberately introduces different payment mechanisms based on geographical location.

We believe the option of the fixed sum relating to a proportion of the total costs of reinforcement works is worth further investigation. However, we would have two concerns here. First, the proportion allocated to an individual generator would depend on the methodology and would remain linked to other users applying for connection. We are concerned that this methodology would still lead to volatility in the level of FSLs seen by users. Second, the amount payable would still be dependent on the level of reinforcement required and means that some users could face a disproportionate level of security given the size of their project.

One alternative to be considered would be to require developers to pay a £/MW sum equivalent to their development costs. After consents are obtained for both National Grid's works and the developer's works, a revised FSL curve could be applied.

e) Local FSL plus fixed sum

This option has merit but there are a number of issues that require further consideration. As discussed above, a clear definition of local works is required. Additionally a realistic measure to calculate the fixed sum is required. The concerns expressed above regards using TNUoS are equally true here.

Overall, Centrica would favour approach where the liability faced by the developer is fixed, at least until consents have been obtained. We also would like to see the link between projects broken. Whilst we can see that there is some merit in this in circumstances where there are multiple applicants for a particular area, it has the disadvantage of removing any first mover advantage and as such removing an element of competition in generation.

Further, we believe there needs to be further consideration of what works are included in the calculation of FSLs. We support a more strategic approach to investment and believe that the transmission companies and Ofgem should seek to deliver a balance between responding to the needs of new generation and a planned approach to network development. The current price

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control review is an ideal opportunity to put in place more sophisticated revenue drivers than are currently used.

#### **Chapter 4 Restricted rights**

Given the level of constraint on the existing network, and the potentially long delays in constructing new transmission assets, allocation of capacity is a key issue. Currently the first come first served mechanism arguably favours existing generation. However, we are concerned that an alternative mechanism, based on the value of capacity to the user will not necessarily solve the problem of long delays for connection of new generation.

Notwithstanding, there may be some merit in further investigating an 'interruptible' product but we believe the existing governance framework allows for these discussions to take place.

The issue of 'reallocating capacity' as discussed in the paper has been the subject of detailed scrutiny by previous industry working groups. Reallocation of capacity does not overcome the problem; that there is a limited resource. It merely moves it to another user. There are significant implementation issues associated with a capacity trading mechanism and the costs may far out weigh any benefits seen.

#### **Chapter 5 Unrestricted Access**

Centrica are supportive of mechanisms that seek to use existing capacity more efficiently. However, we do not believe this necessarily translates into unconstrained access to the network, the so-called "connect and manage" approach. Although we have sympathy with the long delays in obtaining network capacity that some developers are facing we do not believe that this is best overcome by connecting all who apply without first considering the cost implications for the network.

Over the last winter it was evident that the existing level of generation could not be accommodated without significant balancing actions by the SO. The cost of these actions is recovered from all network users and we are concerned that unrestricted network access will cause balancing costs to increase significantly. These costs illustrate the fact that the network is already constrained and major reinforcement works are planned in order to overcome some of these constraints. We believe greater analysis and justification is required before it can be shown to be economic to increase the level of balancing costs in the short term and to also pay for additional reinforcement in the long term.

We support the concept of increasing the level of information available to National Grid regarding the future plans of generators. It may be that the best way to do this would be through longer term capacity bookings and we would support this option being further developed.

#### **Chapter 6 Illustrative options**

Of the options discussed in chapter 6, Centrica do not support those that allow connection of new generation ahead of system reinforcement on a firm basis. Generators who are constrained off do not achieve windfall payments as a consequence of their chosen location.

We note the proposals for facilitated trading through an agent. This variant would need detailed consideration before it could be seriously implemented. Work carried out by the Transmission Access Standing Group identified considerable issues associated with implementing facilitated trading. Not least, we are concerned that any requirement for parties to have new systems in

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place would be costly and not necessarily benefit small generators who are currently seeking connection in Scotland.

## **Summary**

In summary, we support changes to the existing FSL methodology and consider this to be a matter of priority. Ideally, we believe the works included in FSLs should be reconsidered, with a more strategic view of some reinforcement being taken. Further, we support a date stamped approach to FSLs, with sums being fixed at least until consents have been granted.

With regards to transmission access, we do not support a “connect and manage” approach. We have significant concerns with requiring connections to be guaranteed within a set time scale. If this approach is taken then there must be fundamental changes to the access rights being offered to new generation. The desire to connect new generation should not result in uncapped balancing costs for the SO.

Finally, if facilitated trading is being considered as a solution, then further detail is needed before a proper assessment of the costs and benefits can be carried out.

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