

# **ENERGY TECHNICAL & COMMERCIAL SERVICES LTD**

The Dairy House, Woolverstone Hall Park, Nr Ipswich, Suffolk, IP9 1AY

Telephone: 01473 780933/07774 102942

Email: tony@energytechnical.com

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Mark Copley  
Transmission Policy Manager  
Ofgem  
9 Millbank  
London SW1P 3GE

Dear Mark

## **Access Reform In Electricity Transmission**

Thank you for the opportunity to comment on the issues raised in "ARODG" report and your comments in your letter dated 9 May 2006.

I have the following comments on Ofgem's five bullet point observations in that letter:

- I would agree that greater certainty is needed on dates for access and financial commitments required
- The risk of costs to the consumer for unnecessary investments to support new generation needs to be balanced against the risk of costs to the consumer for failure to make necessary investments in generation *because of* inadequate transmission infrastructure. Indeed, it is a sad state of affairs when *Government Policy* dictates (or at least incentivises) new generation in areas of the country that require transmission reinforcement but fails to recognise how that reinforcement is going to be financed.
- I would agree that an increased on-going liability for use of system charges might be an acceptable trade-off for lower and/or more certain financial commitments prior to connection. However careful consideration will have to be given to the magnitude of such commitments if they are not to be a barrier to entry.
- Whilst I agree with the intent of allowing the "strongest projects" to identify themselves at any early stage (and thus gain earlier connection dates), this may prove difficult to implement in practice and there is a risk that such an approach may simply favour project promoters with deeper pockets over those with less resources at this early stage of development.
- I agree that the current suite of TEC products (and alternative non-firm arrangements) should be enhanced. In particular, a form of TEC Trading is required that allows TEC to be temporarily transferred from one party to another, and then transferred back again at a later date.

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In terms of the detail of the ARODG Report itself, I have attached my comments below. Also attached as a separate document are the comments I made to NGET on its recent consultation on “Managing Access to the GB Transmission System”, which covers similar ground.

Yours sincerely

A R Cotton

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**Access Reform In Electricity Transmission:  
Comments on ARODG Report Dated April 2006**

*Introduction to the Report*

It should be noted in relation to paragraph 1.6 that the concept of “CEC” does not apply for embedded generators. This throws up an anomaly in the CUSC which implies that such generators, holding Bilateral Embedded Generator Agreements, may not be able to increase their TEC beyond that originally applied for, since various sections appear to preclude TEC exceeding the CEC value (see sections 6.30.2, 6.31.4.5 and 6.32.4.5). This is clearly not the intention of these provisions but it is something that could be clarified in a future amendment to the CUSC.

*Provision of Security*

Chart 1, following paragraph 3.14, illustrates the significant potential volatility in Final Sums Liabilities due to parties leaving a cluster. Whilst in particular circumstances this can be a matter of concern, it is important to recognise that the “maximum” liability (100% of the shared reinforcement) is known at the outset (leaving aside the risk that actual costs might exceed outturn). Of possibly greater concern is the effect of a new User joining the cluster and triggering significant additional work which increases the liability in an unpredictable manner. Any new system must protect Users against this risk (which is a consequence of the way the new “sharing” methodology has been constructed). Greater clarity is also needed on the circumstances under which “H2” works can be transferred to “H1”.

Chart 2 shows a significant area labelled “extra unsecured risk relative to today”. This overstates the risk position because it ignores the security/payments that would be made by the other User withdrawing from the cluster. For example, if the development got to quarter 9 before the other User withdrew, that User would be providing around £15m of security (the difference between the blue line and the top red line). On the assumption that such security would be drawn down by NGET upon cancellation of the User’s construction contract (unless another User joined the cluster and provided security in its place). Therefore the “extra unsecured risk” is £15m less than implied by the diagram, and would be even less if NGET could adjust the works to suit the smaller connection capacity now required.

*Restricted Access Rights*

As a general comment on section 4 of the report, I support the development of further options that promote the availability of restricted or “non-firm” rights where unrestricted rights would not be available. This should be accompanied by greater transparency of what is possible, for instance certain generators may already have partially non-firm rights through the use of inter-trips, but this is not apparent to other parties. Additionally, there is no information or guidance in the CUSC or other documents as to how “exchange rates” for TEC transfers are determined.

It should also be made clear that in cases where TEC is transferred from one party to another (at a different location), the subsequent “return” of the TEC to the first party would be at the same exchange rate, ie even if the second party received less, the first party would get back what it started with.

*Unrestricted Access Rights*

Proposals that require new users to pay multiples of the annual use of system charge upon TEC application may be a major barrier to entry for small players who may not have access to such a level of funding at an early stage of a project. If the charge was for five years use of system, a user applying in Northern Scotland for 100MW of capacity would need to put up over £10million upon application, which application is (in present conditions) unlikely to result in TEC before 2015!. This means that grid applications would only be made post-consent (and possibly in some cases post financing), and would therefore have to be associated with a firm guarantee of connection within a short and clearly defined period.

The proposals for existing users also being asked to secure multiple years of use of system, there is an implication that this will improve the information held by the SO or the TO on future network demand ie when/if a power station will close. However, as described the use of system commitment will be a fixed cost, and it will not affect the *marginal cost* decision being made by the User to shut the plant. There may be a slight benefit if the User has the ability to avoid this charge by giving long term notice of closure, but given the volatility in the energy markets, and the relatively low contribution of use of system to total costs, it is questionable if this will amount to much. This proposal is therefore likely to increase costs for no appreciable benefit.