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Dear Mark

Access Reform in Electricity Transmission – Access Reform Options Working Group (AROWG) report: open letter and consultation

energywatch welcomes the opportunity to respond to the issues raised by this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

We have a number of concerns about the availability of access to all generators who want it as this ultimately impacts on consumers.

Consumers, as the ultimate bearers of network costs, need assurance that the electricity infrastructure through which power flows is capable of meeting demand (ensuring security of supply), that it provides safe and reliable supplies and that existing and new infrastructure is operationally cost efficient. We understand that, given current concerns about security of supply, further infrastructure may well be required to enhance the efficient operation of the network particularly given the need to meet wider objectives and targets on renewable generation, the likely location of much of new generation and the constraints issues arising on the grid as a result. Equally, we agree that consumers should become more energy efficient and consume energy on a sustainable basis.

In our view, access issues need to be considered by reference to two specific aspects:

- how effectively current infrastructure is being utilised by existing and prospective connectees to the network and
- whether new infrastructure ought to be built to improve upon the operational and financial efficiency of the existing network

which limits wastage (essentially the building of stranded assets) and optimises usage (essentially minimising of constraints).

With regard to the former, consumers would expect that existing access arrangements are working efficiently and appropriately to ensure that existing and new generators are provided with 'firm' access rights, both financially and physically, on the network. If existing users choose not to use their access rights – mothballing of plant for instance - they should pass these on to generators who do wish to use that access. An alternative to this would be that effective 'use it or lose it' provisions are in place to provide for capacity buy-back by National Grid on an economic basis for onward sale to others, or compensation is provided to a collective 'pot' in some way by the generator for failing to use the access for which it has contracted.

We agree, therefore, that some form of trading of access rights should be established to optimise existing network usage. National Grid as system operator would, by necessity, be involved in the trading process to minimise the costs to consumers of network use and balancing which may result. We note the range of options discussed in the report for trading access, from the use of ad hoc agreements between generators to trade with National Grid providing an 'exchange rate' for the trade to the use of a centralised market for trading. We believe that the decentralised approach would be best in terms of minimising costs to consumers, as it limits the need for additional systems and processes such as appointment of an agent involved in the trading process.

With regard to the provision of new infrastructure, we note the discussion on financial security and its relationship to the provision of access rights. As we note above, financially and physically 'firm' access should be provided but this requires an element of real financial commitment from the potential connectee and user. We consider that a proper balance needs to be struck between facilitating market entry for new generation connections and the possible costs if applications fail once construction has begun, resulting in stranded assets. Stranded assets will create two sets of costs - building of the infrastructure plus the resulting under-utilisation of the network - in both cases borne by consumers.

Consumers are least able to manage the risk of these outcomes and so, in our view, the majority of the cost and risk of building new infrastructure must lie with the applicants who seek it. Although this may deter some applicants and could be seen as a barrier to entry we believe that applicants who are serious about connection ought to, and will, factor the overall costs into their financial plans. We believe

that the 'first come, first served' approach used for connection applications at present encourages speculative applications and places applicants with firm and viable proposals, which may also help long-term security of supply, well behind in the queue. If there are firm commitments on both sides (applicant and system operator) based on a realistic financial assessment of the costs of connection, both locally at the connection point and for any wider reinforcement of the grid, this should limit the building of stranded assets and network under-utilisation.

In terms of the illustrative options outlined in the report of the AROWG, we do not express any particular preferences. We do note that a 'status quo' approach is no longer acceptable and that security of supply and low-cost, efficient investment in the network requires a greater flexibility from both potential connectees/users and existing users of the grid to optimise efficiency and access. This may mean that where there is insufficient availability of access an effective trading market may be created to allow economic price discovery of the true value of access to users. It also means that access products of different durations and flexibility may need to develop to maximise availability. We agree that it would be useful to hardwire these elements into codes and charging methodologies in order to ensure robust arrangements exist for consulting on and effecting further changes. Transparency is preferable to the opaque arrangements which currently exist to deliver a market-led solution to access.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers. We would like to express an interest in attending either or both of the workshops which Ofgem intends to hold after this consultation, in Glasgow and in London, as highlighted in the open letter. We look forward to receiving further details when these become available.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs