

Access Reform Options Development Group

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Why we convened the Group

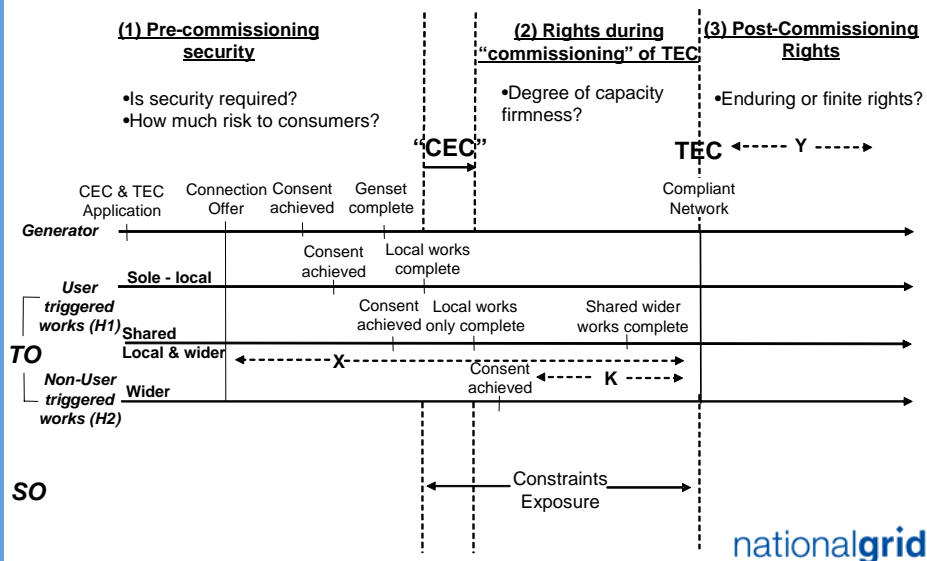
- Widespread dissatisfaction with aspects of the transmission access arrangements
- Ofgem questioned whether they were:
 - Promoting competition as effectively as possible
 - Generating sufficient information to ensure efficient investment
 - Ultimately working in the best interests of consumers

The Group

- Comprised members representing a wide range of industry parties
- Charged with considering the enduring applicability of transmission access arrangements and developing a report summarising options for change.
- The ARODG met weekly over six weeks
- The Group's report was published for consultation on 10 May 2006.

Assessment Framework

Access Building Blocks



- 1) Security
- 2) Restricted Rights
- 3) Unrestricted rights

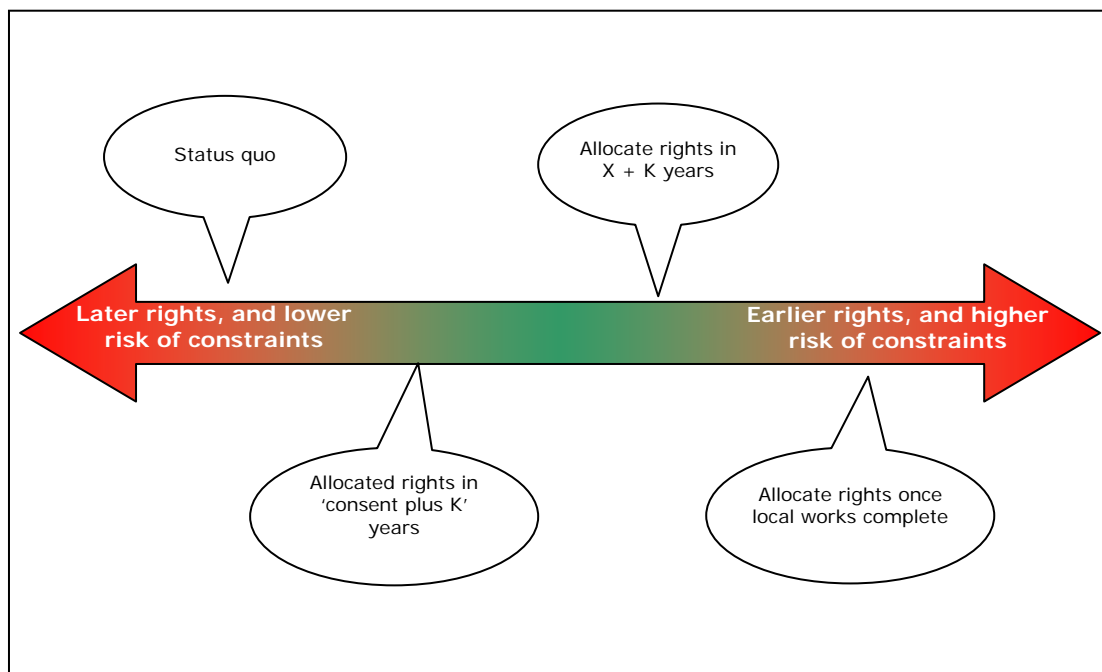
Options developed

- Security.
 - Perceived problems :-
 - Timing, level and volatility of Final Sums Liabilities (FSL)
- Options – From minor tweaks to replacement of FSL
 - Date Stamping
 - Local FSL
 - Fixed Sum

Options developed (2)

- Restricted Rights.
 - Perceived problems :-
 - Limited range of access products & limited trading opportunities
- Options – Squeeze more capacity or reallocate rights
- Unrestricted Rights.
 - Perceived problems :-
 - Do arrangements promote competition, is info to companies adequate, is capacity delivered as quickly as practicable?
- Options – Combinations of rights and obligations.

Unrestricted Rights



- A spectrum of options for delivering capacity
- From connect & manage to the status quo
- Contingent on key milestones

Which users should commit to using capacity? Options – from all users to the status quo

Ofgem's covering letter

- Ofgem said (amongst other things)
 - There are significant improvements that could potentially be made to access arrangements.
 - Greater certainty over the date of granting rights and financial commitments may promote competition.
 - Consumers should continue to be protected from the risk of investment being incurred unnecessarily.
 - We think there might be a case for changing both the overall level of security provided by generators, and the allocation of security requirements between new and existing generators.
 - There would appear to be merit in arrangements which enabled the strongest projects to identify themselves at an early stage by committing to pay for capacity for a longer duration than under the current arrangements.

Responses to the consultation

- 30 responses received – all non-confidential on website
- Key messages –Security
 - Real need to change FSL in short and long term
 - Risk is currently inadequately allocated
 - General support for earlier commitments & a material commitment
 - Need to consider the impact on wider users of risk transfer
 - Governance of FSL needs addressing/ codifying

Responses – Restricted Rights

- Key messages – restricted rights
 - General message that more efficient utilisation of network is desirable
 - Support for development of wider range of products – particularly “non-firm” access. May promote earlier connection.
 - Questioning of the extent to which capacity is available
 - Limited support for complex capacity trading mechanisms
 - Consideration of alternative technical solutions worthwhile

Responses – Unrestricted rights

- Key messages – unrestricted rights
 - No consensus regarding enduring commitments. Some consider more efficient others that it would create an additional sunk cost.
 - Benefits likely from delivering capacity in fixed timescales.
 - New connectees tend to support connect and manage
 - Others note need to balance risk of extra constraints
 - Benefits from certain timescales if risk appropriately allocated
 - Need to consider island connections.

Ofgem's role

- Ofgem will consult on a 'bolt on' to the price control proposals as required in the light of possible changes to access arrangements.
- Where possible we will consult on this in the September TPCR document – but will consider additional consultation as the need arises.
- Reconvening the ARODG should it prove necessary has not been ruled out.



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