

Transmission Price Control Review: Initial Proposals

1. Introduction

The next Transmission Price Control is likely to cover a period which will see the greatest changes to the networks for several decades. It is therefore vital that the decisions taken now, anticipate and reflect the needs of users of the system as well as providing the appropriate drivers on the transmission companies for efficient and timely investment, operation and development.

2. Support for New Sources of Electricity

Appropriate changes will be needed in the new regime to significantly improve the access arrangements for renewables. This spans the timely provision of appropriate connection infrastructure, a sufficiently robust Main Interconnected Transmission System, the alleviation of the current onerous requirements on connecting parties for securities and a more creative approach to resolving the “GB Queue” issue, which delivers a rapid solution.

Part of the growth in renewable capacity is likely to be represented by Embedded Generation. As the amount of embedded generation increases, it will need support in order to make its contribution in a full and effective manner. The transmission system should act as a facilitator in this regard, and inappropriate additional costs should be avoided. The Review should take the opportunity to examine the scope for coordination between the development of transmission and distribution networks as the latter increasingly change from being passive to active. Two separately assessed investment programmes, which have several significant challenges in common, run the risk of inappropriate or inefficient investment in either or both, with operational and cost consequences for users.

3. Flexibility to respond to new developments

We welcome the incorporation in the proposals of arrangements for flexibility. The document notes that the Energy Review and the detailed proposals which will follow it will have a significant impact on the development of the network.

As a general rule, but specifically with regard to the development of transmission networks, consideration of overall government objectives for energy needs to be more fully incorporated in the work of Ofgem, with the emphasis on facilitation.

The continued development of the “revenue drivers” mechanism is a key element in the required flexibility to respond. However, care is required in the detailed design of flexibility mechanisms, which should not become merely an “adjusted” revenue neutral legitimisation of events as they occur – flexibility must be used within an appropriate overall framework so that it is complementary to the agreed strategic vision for network development, rather than a “cost plus” recovery mechanism driven by independent uncoordinated events. Significant resource is devoted to establishing what is “efficient” investment for the areas covered by the “main” price control, prior to its implementation. Consideration needs to be given as to how efficiency will be measured

or assessed under the adjustment mechanisms. Further, as costs change as a result of the adjustment mechanisms, this should not result in excessive perturbations in charging structures experienced by end users.

It is also important to review experience with the proposed adjustment mechanisms *during* the next Price Control period, so that lessons can be learnt and acted upon during, rather than at the end of the period. This can be carried out in a manner which does not present an increased regulatory risk to those subject to the Control, but allows learning benefits to be captured as they occur.

4. Risk Allocation

Risk allocation and efficient management of those risks, are key elements of any proposals. However, stakeholders will have a diverse range of capabilities with regard to risk management, and differing opportunities to transfer those risks efficiently on an individual basis to parties more suited to manage them. An appropriate balance therefore needs to be struck between the results of a strictly defined economic modelling and analysis process and the recognition that there will be objectives which could be better facilitated by appropriate socialisation, sharing/pooling or risk transfer than would be the case under an approach dictated by economic modelling alone.

5. Efficiency

The measurement of network investment and operating efficiency is dependent *inter alia* upon the chosen timeframe for analysis. Longer term objectives, which deliver significant benefits, may not be judged “efficient” if measured over an inappropriately short timescale. This is where the framework needs to be able to accommodate the requirements of policy objectives which span price control periods.

6. Revenue Allowance Adjustment Mechanisms

These mechanisms should bring welcome flexibility to cope with a period of great change. However, this flexibility needs to be accompanied by a timely process for implementing the new flexibility. The assessment and approval of any changes (up or down) should not act as a critical path item to the implementation of necessary changes.

7. Implications for Transmission Charges

“The potential impact on domestic consumers’ final bills” is a benchmark which is widely used. However, domestic consumers do not use the transmission system directly. Those who do are subject to a range of charges for connection and use of the system which form a significant element of their cost base. The level, structure and geographic spread of these charges is of vital importance to users and relatively small overall changes can have specific major impact on users due to distributional effects.

8. Treatment of wind generation

We support the use of an appropriate cost-benefit approach when assessing the network investment that would seek to minimise the total transmission costs including capex and operational costs such as constraints. However, transmission costs should not be considered in isolation. The environmental benefits from wind generation are currently inadequately reflected in the overall analysis of network investment/operation. This needs to be more fully integrated into the process.

With regard to “efficient connection” of wind generation, there is little benefit to a generator of opting for a cheaper, but less secure, local connection design if the wider system is unable to accept their output. Hence, any short term temporary, or longer term permanent solution which sharpens the incentives for some generators to opt for more efficient connection designs needs to be accompanied by similar incentives on National Grid to ensure that the system is capable of accepting the generators’ output in a secure and timely manner.

Therefore the proposed two part revenue driver design needs to ensure sufficient weight is placed on the second part which deals with ‘deep’ reinforcement works.

9. Competition and Links to the Scottish Islands

In general, where it is economically feasible and sensible to do so, competition should be allowed in the provision of goods and services. A primary benefit is the stimulation that this gives to innovation and in turn, efficiency. With regard to the Scottish Islands, the links may, in some respects, be characterised as interconnectors, rather than extensions to the existing network. The processes for enabling competition in the provision of interconnections are well tried and should serve as a starting point when seeking to assess the costs and benefits involved with the potential introduction of competition in respect of the prospective transmission links to the Scottish Islands.

10. Innovation Incentives

We strongly support the introduction of the proposed 'Innovation Funding Incentive' scheme for electricity transmission. Consideration needs to be given to the beneficial involvement of third parties in the scheme, so that maximum benefit can be derived. It may well be that third parties, working closely with transmission licencees, provide a significant proportion of innovative proposals that meet the agreed criteria. The scheme should therefore be sufficiently flexible to recognise the contribution which can be made to innovation through this route and to allow its incorporation.

11. Access Reform

The effort put into the ARODG process by all stakeholders was considerable, and valuable progress has been made. However, this work needs to be translated into tangible results to be of ultimate benefit. Ofgem needs to take a more proactive role, to ensure that changes are progressed both within the context of the TPCR process and also that any changes which can be made in a more accelerated timetable, are actually made.