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2007

26 January

Your Ref: Ofgem doc. 215/06

Dear Grant

Charging arrangements associated with GB SQSS design variations based on customer requests: Impact Assessment

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

We understand National Grid Electricity Transmission (NGET)'s intention, in amending the charging arrangements, is to preserve the overall integrity and security of the transmission network while providing a choice to a user whether to accept a less secure connection but at a discount to the normal transmission use of system (TNUoS) charges. However, we have a number of concerns with the proposal:

- the potential for a number of different charging structures to develop depending on how many users take up the option over different circuits and charging zones – a more complex and, therefore, less transparent approach to TNUoS charging may result;
- whether the user will be able to understand the full cost implications of a lower security standard applicable to its connection, which may create greater risks to that user of a loss of supply without other forms of redress;
- the effect of moving more risks associated with system security on the network from National Grid to the user. We believe that NGET is already paid a fair return to manage those risks on behalf of all users and this obligation should not be diluted in return for a marginal (in some cases) discount on TNUoS charges.

We generally do not consider that cost reflective charging is appropriate except for the very largest users who may be better able to manage risks compared with most users. We also consider cost reflective charging to conflict with an approach which allows charges to be determined in a simple, transparent and predictable manner. While some users may benefit from a discount to TNUoS charges, we are concerned that they will not appreciate the potential costs which may arise if their supply is lost because the security standard for the connection is lower than for other circuits.

We note that there is disagreement about whether NGET's approach to calculating the discount actually provides cost reflective charges. This underlines our fear that there could be a fragmentation of the charging structure without any real benefit to affected users. There is also a risk of inconsistent application of the discount across different zones, which would dilute incentives for greater efficiency. We fail to see how this may facilitate competition in accordance with NGET's licence obligation.

We believe that NGET and the other transmission owners are responsible, and are rewarded through their price controls, for operating the transmission network in an efficient and economic manner. This means the **whole** network, not just parts of it. The integrity of the whole network could be adversely impacted by passing some of the risks to some users who may not be in a position to manage those risks efficiently or economically. This would affect all electricity consumers, not just those users. Would the price control allowances be amended to recognise that some risks had passed over to other parties?

We would also question how a user, which had sought a particular circuit design to obtain the discount, would feel if another user connected at the same point, which precipitates removal of the discount. Would the first user appreciate this risk when making its initial application? How does this create investment certainty which the user would require over the life of its connection?

For the reasons above, we have doubts about NGET's proposal in its current form and we consider that Ofgem should veto it.

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 appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

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