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Your Ref: Ofgem doc 248/07

Dear Karron

Recovering the costs of compensation for temporary physical disconnection (CAP048) - proposed modification of transmission licences consultation

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

Consumers expect the delivery of safe, secure and reliable electricity supplies in an efficient and economic manner. The transmission licensees have obligations to meet consumers' expectations and Ofgem has a primary statutory duty to protect the interests of consumers by ensuring that licences reflect those expectations.

We note the distinction to be drawn between planned and unplanned temporary disconnections of generators connected to the transmission grids. These events ought to be kept to an absolute minimum as they may impact on the reliability to all users, and create costs which will ultimately be borne by consumers. We also note, however, that any mechanism for compensating generators ought to be relatively simple to operate to keep administrative costs incurred by the GB system operator (GBSO) low. Ofgem has indicated that incentivising transmission licensees to minimise incidents of temporary disconnection should keep costs low. We note the difficulties highlighted in determining a reasonable estimate of compensation costs.

Taking all the above into account, we agree with Ofgem that the use of a simple recovery of costs through transmission use of system (TNUoS) charges by the GBSO from the transmission owners (TOs) would be appropriate. However, we do not see why the TOs should pass these costs through to consumers. A proper log of disconnection events needs to be established with details of the costs involved so that appropriate incentives can be set to ensure that the TOs are acting efficiently and economically in line with their licence obligations. If the incidence of disconnection events is minimal, consumers must not pay for the failure of the TOs to operate reliable and efficient networks. The TOs should absorb these costs internally. We believe that retrospective cost recovery, as proposed by Ofgem, creates unnecessary costs for consumers without proper rationale.

We do not believe that the proposed licence changes should be made as they provide for cost pass through by the TOs.

We will continue to keep these issues under review, always considering the possible impact on consumers, and note that Ofgem will be consulting again on this issue after receipt and consideration of responses to this consultation.

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