

Transmission Access Review - Conclusions

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The challenges TAR was designed to address

Existing arrangements are not fit for purpose. Significant queue of generators waiting to connect. Transmission investment lags behind generation investment

- The existing GB transmission system connects **c80GW** of generation to meet around **60-65GW** peak demand
- To meet 2020 targets will require an **additional 60GW+** of renewable capacity plus:
 - thermal (fossil) back up plant given intermittency
 - new nuclear generation
 - around 20GW of existing generation is expected to close by 2020 and distributed generation will also have an impact
- Majority of new connections for **onshore and offshore wind**, but also **nuclear, gas and clean coal**. Connections may be remote from the existing network resulting in potential planning difficulties

Longer term targets create major uncertainties and challenges for Ofgem, HMG and companies . This isn't just a renewables issue. Need for radical reform and innovation.

The issues we identified in the course of TAR

- Approach to access has historically been successful in accommodating >25GW of new generation and closure of 20GW, but can not cope with the pace of change
- Maintaining investor confidence is important, and a lack of firm connection dates is an issue
 - But this can not be a one way street – new projects need to provide a clearer commitment to use the system
- The current regime may not provide incentives for TOs to take on more risk if they believe there is the potential to connect new projects
 - But consumers must be protected from unnecessary costs
- Existing system capacity was under-utilised in some case and over-utilised in others
 - But this must work in conjunction with significant system reinforcement – they are complements not substitutes

Key publications

Aug 07

Call for Evidence – sought views on issues to be considered over the course of TAR, and initial thoughts on options for access which are subsequently assessed in April 2008

Oct 07

STAG Report – building on the work of the TSORG group, setting out progress on queue management, commercial framework development, system operation and planning

Jan 08

Interim Report – sets out our initial conclusions on the key principles that would enhance the arrangements for gaining access to the grid

Apr 08

Analytical Discussion Document – assesses a range of illustrative strawmen to help inform debate

Jun 08

Final Report – provides our final recommendations to the secretary of state on enduring arrangements, short term measures, and initiatives to help achieve the 2020 targets

Final Report High Level Principles

- New generation projects should be offered firm connection dates, reasonably consistent with the development time of their project
- Generators wanting long term, financially firm access to the system need to make long term financial commitments
- Transmission companies need to have appropriate incentives to respond to the long term demand for access signalled by generators
- Access rights need to be more clearly defined and all generators need to be offered choice about how they access the system
- In order to make more efficient use of existing and new capacity there needs to be better arrangements for sharing of transmission capacity

Need for change identified in a range of areas, including short term measures as well as enduring reform

The TAR Package – Enduring Access Arrangements

- Amendment proposals on commercial arrangements and charging methodology
- Modular approach, capable of delivering a range of different regimes
 - Expect CUSC process to indicate which elements work together when final report comes to the Authority
- Possible implementation around April 2010
 - Notwithstanding potential legal challenges

The TAR Package – Short Term Measures

- Improving management of existing “queue” of generators
 - CAP150 has resulted in more spaces being made available in the queue. NGET methodology to fill spaces is in place
- Measures to release and utilise the full capacity of the system
 - CUSC amendments on SO release and TEC sharing are in progress
- Scope to connect more generation through limited derogations from security standards? Criteria include: Benefits > Costs.
 - Included in benefits will be carbon abatement
- Concerns about market power? Incumbents wanting to advance generation projects asked to auction existing capacity?
 - If generators hold capacity that is not being used, they could return it to the pot, and it can be allocated fairly

The TAR Package – Facilitating the 2020 Targets

- TSOs to publish a major technical study by end of 2008. Brought together through ENSG
 - Ofgem and BERR will jointly chair the ENSG and provide input into the process
- Ofgem to develop sharper incentives for TSOs, in particular, new investment incentives for TOs to take some of the stranding risk (but with higher reward for timely & efficient investment)
- Linked to ongoing review of SO incentives
 - In addition to timely-delivery and enhanced investment incentives, will need to consider potential impacts of all the CUSC mods but specifically CAP161 – SO Release

Further initiatives – TSORG Follow UP

Transmission system capability – wider use of local short-term weather forecasts and greater use of hot-wiring could free up additional operational capacity

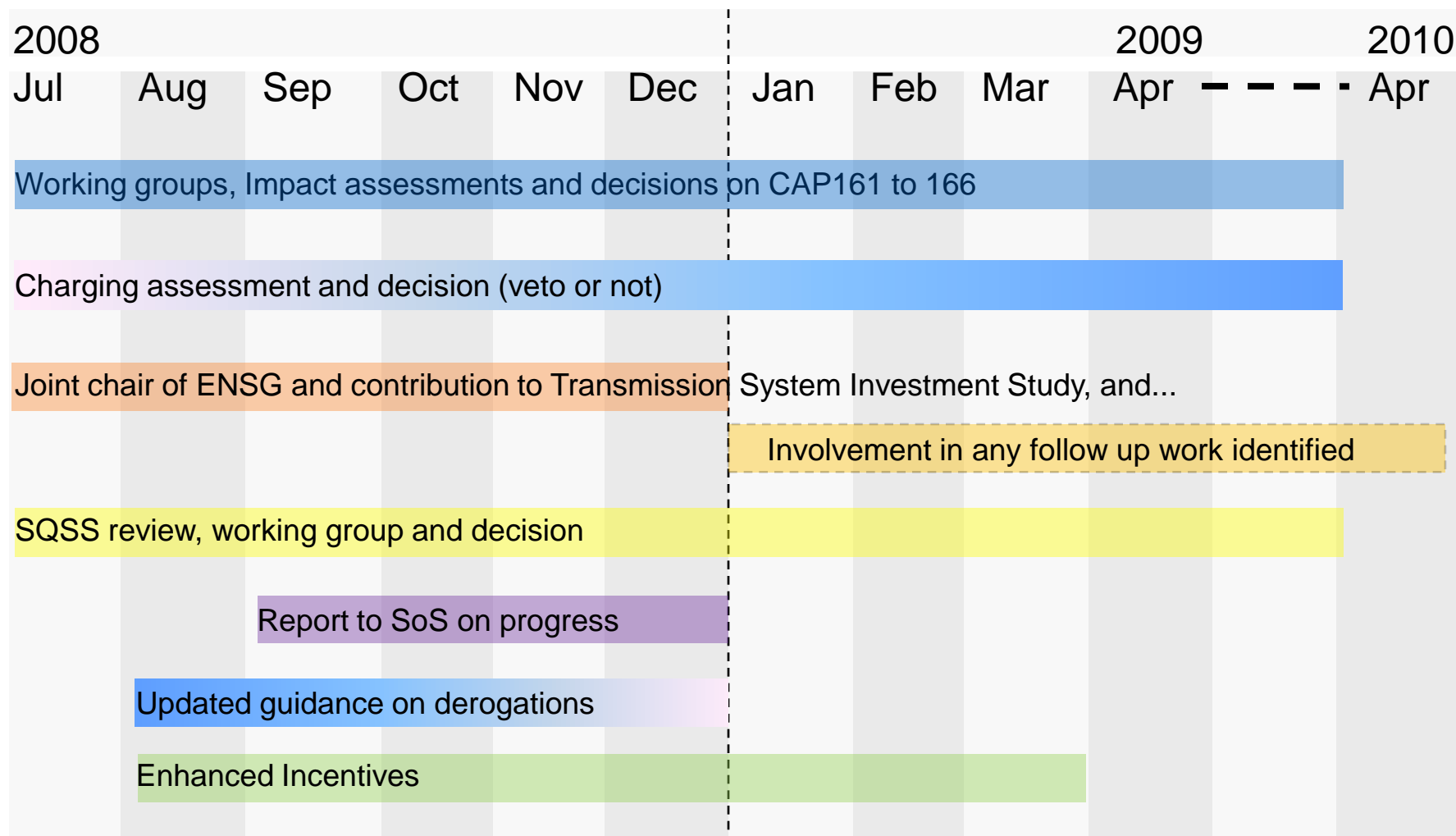
Transmission system utilisation – assessment of how to measure system utilisation influences the need to reinforce the system. More efficient measures of utilisation could yield more efficient decisions on reinforcement

Limiting factors in current regulatory framework – suggested review of the GBSQSS which included exploring removing regional differences, probabilistic approaches to security, different (lower) standards of security, e.g. N-1, and allowing the use of intertrips in planning timescales

Development – exploration of new monitoring and protection solutions allowing faster disconnections, such that the system can be operated closer to physical limits

The TOs and GBSO have a work programme to take these initiatives forward, and the GBSQSS is undergoing fundamental review

Parallel Work Streams to Make Changes to Enduring Regime



Our Expectations (Enduring Arrangements)

- **WGs are expected to:**
 - Consider linkages (eg mutual dependency/enhancement/exclusion) between proposals, bearing in mind the over-arching framework to be established
 - Develop, assess and report on evidence (wherever possible, quantitative) for a manageable number of viable options
 - Be mindful of CUSC and other obligations (e.g. prohibition on undue discrimination)
- **CUSC Panel is expected to:**
 - Consider WG reports. Submit report to the Authority setting out assessment of options and a recommended option for each CUSC amendment proposal
 - Be mindful of CUSC and other obligations (e.g. prohibition on undue discrimination)
- **NGET is expected to:**
 - Consult on charging options arising from WGs
 - Submit report to the Authority setting out assessment of options and charging modification proposals
- **Ofgem/Authority is expected to:**
 - Provide an appropriate steer on analysis and direction
 - Conduct Impact Assessment(s) on proposals, leading to decision on changes

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Planning & Incentives

- Ofgem is launching a major project to develop an enhanced incentive regime, and will produce an initial consultation in the autumn. Requires TO/SO input.
- ENSG terms of reference for Transmission System Investment Study agreed, and working groups being convened.

Important Milestones in a Long Running Project

MILESTONE	DATE
Final report	June 2008
Ofgem consultations on timely-delivery/enhanced investment incentives	From Aug 2008
Modifications submitted to the Authority for approval	December 2008
Impact assessment/systems design/testing/CC appeal and/or JR?	Dec 08 onwards
Authority report to the Secretary of State on progress	End Dec 08
Updated guidance on derogations	End 08/beginning 09
Possible implementation of 1 st phase of CUSC amendments	April 2009
Implementation of timely-delivery/enhanced investment incentives	April 2009
Assessment and systems development of enduring access arrangements	Spring/summer 09 onwards
GBSQSS Review	Now until Dec 09
Possible implementation of 2 nd phase enduring access arrangements	By April 2010?

Last chance saloon for industry and NG. Ofgem and BERR will be actively involved in and closely monitoring the development phase



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