

The Lord Mogg, KCMG
Chairman



The Rt Hon Ed Miliband MP
Secretary of State
Department of Energy and Climate Change
3 Whitehall Place
London
SW1A 2HH

*Promoting choice and
value for all customers*

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Dear Ed,

Transmission Access Review – Third Progress Update

In my letter of 30th March to you on transmission access I undertook to write again before the end of June. I had reported on the progress of the different work streams and concluded that whilst risks remained, it was not necessary for you at that stage to take your powers under the Energy Act 2008, to facilitate reform of the transmission access arrangements.

We have, of course, also spoken since my March letter when I took the opportunity to express my growing concerns about the three models of grid access developed by industry in the light of the more recent analysis by National Grid. That analysis suggested that the model attracting majority support within the industry would give rise to significantly higher charges for new, low carbon generation (such as renewables) than for existing high carbon emitting coal and gas generation in similar locations. Attempts that were made to develop a "fourth model" to deal with these concerns have unfortunately since been frustrated by the industry process which has prevented that model being further developed and consulted upon. This was not a unanimous view with National Grid and two other members of the industry committee (the CUSC Panel), including a 'non industry affiliated' Panel member, voting that the "fourth model" could and should be allowed to be taken forward along with the others.

Despite these developments, I well understood your view that there would be merit in allowing the industry one last chance to propose a credible range of options for access reform. Alistair Buchanan subsequently wrote an open letter setting out our concerns and inviting further thought from those preventing the "fourth model" from being considered. The only public response to this letter has been a joint letter from the generator trade associations - the Association of Electricity Producers (AEP), the British Wind Energy Association (BWEA) and the Scottish Renewable Forum (SRF) - denying that generators had behaved inappropriately.

In view of this situation, I must now confirm that the Authority formally recommends that you use your powers under the Energy Act 2008. The electricity generation sector must

clearly play a major role in delivering the UK's ambitious emission reduction targets and it is regrettable that the industry appears to have failed at the first hurdle. There appears to be a lack of readiness to ensure that all viable alternatives to resolve grid access be examined and put before the Authority at the same time. This would have significantly increased the possibility of a solution that is fair to existing generators (both new renewable and other new low carbon generators) without exposing hard-pressed electricity customers to excessive and unnecessary costs. In my view, such a compromise is feasible - a solution that would ensure that the connection of substantial volumes of new, low carbon generation over the next few years is achievable without exposing customers to excessive and unnecessary costs. My Officials are ready to work with your department and with National Grid to help bring about an enduring transmission access regime that delivers these objectives.

Detail

The industry's work on enduring grid access arrangements was originally packaged into six distinct proposals. Two new proposals were raised by industry parties - one related to a model of access reform (the so called "fourth model"). The original six proposals, in combination with these two new proposals, appeared to provide an appropriate range of alternative approaches on which to base our decisions. However, as I noted in my last letter, the process was not without risk and, in the event, this has proved to be the case.

The two new proposals for enduring access reform (including a proposal on the "fourth model") were still under consideration. Without them, the range of modifications submitted to the Authority for consideration might not have been comprehensive. Since my letter of 30th March, the CUSC Panel declined to undertake further work on the "fourth model". For our part, our assessment of the original six proposals leads us to believe that these may not be consistent with the statutory objectives and legal duties against which any access model must be assessed. There is, therefore, a material concern that the Authority would be unable to agree to any of the proposals which have been made.

A second risk was that the completion of the industry process might be delayed. The industry has begun its work to address the shortcomings of the original six proposals. We have little confidence that this work will be completed in a timescale that is consistent with the Government's aspirations.

Thirdly, our (longstanding) general concerns about the ability of the industry processes to tackle major policy reform remain, not least given the CUSC Panel's decision not to pursue further work on the "fourth model". We have real concerns that the industry process will not be successful in delivering the fundamental reforms needed to meet the Government's climate change commitments. We have today published a document which captures the current state of the debate and explains our views on the key features and merits of the access models.

Recommendation

The Authority's advice is that you should now take your powers under the Energy Act 2008, to facilitate reform of the transmission access arrangements. If you do so, in order to avoid the risk of parallel and inconsistent decision processes, we will keep under review the timing of the decisions the Authority must make on any of the access-related proposals.

The Panel's decision has prevented further work on the "fourth model" which provides further evidence to support our concerns about the way in which major reforms are governed by present industry processes. Therefore, support from Government for our review of industry governance will be of major significance given that many of the drivers for change are public policy issues.

The opportunity now presents itself to resolve issues which have plagued the development of an enduring access regime for many years. It will be critical that a coherent model of access reform is developed to provide the necessary clarity on the enduring access arrangements which will facilitate investment in renewable technology. That model should be consistent with both the Authority's and, of course, your own statutory duties. It should also be consistent with the principles for access reform that our Officials agreed in the document entitled "Transmission Access Review - Final Report" that was published on 26 June 2008.

Yours sincerely,
