

20<sup>th</sup> January 2010

Dear Dena,

Thank you for the opportunity to respond to this assessment consultation on the introduction of locational BSUoS. We have a particular interest in the energy market and are keen to ensure that any changes to market rules do not result in unfair price increases or do not adversely affect consumers' interests.

We understand that the proposal is intended to be temporary and that a permanent solution is being considered by DECC as part of their "Improving Grid Access" review. We thus support ECM-18 as a transitory measure until this more permanent solution is implemented, even if this means slightly higher costs for some generators (and thus some consumers) since the issue of high constraint costs is essentially a local one. This support is, however, dependent on the reduced costs for other generators being passed through to consumers. Ensuring this outcome will require close monitoring of the situation by Ofgem. The concerns we have regarding generators and consumers are outlined below.

Based on the analysis provided so far it is difficult to ascertain quantitatively the impact on consumers of ECM-18; instead we base our views on the likely behaviour of generators if BSUoS is localised. We would be in favour of any scheme which promises to reduce bills for most, if not all, consumers subject to the caveat that any efficiency gains generators enjoy are passed onto consumers. Thus any small increases (in the short-run) in costs to a minority of consumers in the affected area would be tolerable if the majority were to see at least equivalent reductions due to cost reflectivity.

However, our chief observation would be that most consumers (i.e. domestic consumers) are passive users of transmission networks and are unable to respond to the pricing signals which localised constraint costs supposedly provide. In the relevant areas of Scotland generators will pass on the impact of ECM-18 on suppliers, who will probably pass these additional costs through to consumers' bills there. We are concerned that suppliers elsewhere may not pass on any savings/benefits to consumers, thus resulting in all consumers paying more. Experience in another area of the electricity market indicates suppliers' unwillingness to pass on cost savings to consumers, as recent wholesale electricity price decreases are not being passed onto consumers via their bills.

We note that the assessment suggests benefits for constraint costs as these costs will be allocated on a more cost reflective basis (thus affecting solely the Scottish generators who cause them), promoting competition in the wholesale market. In a perfectly operating market this may be the case however we have strong concerns that due to both domestic consumers' inability to respond to pricing signals and existing problems with a lack of competition in the electricity supply

Artillery House  
11-19 Artillery Row  
London SW1P 1RT

**t** 020 7799 7900  
**f** 020 7799 7901  
**e** [contact@consumerfocus.org.uk](mailto:contact@consumerfocus.org.uk)  
[www.consumerfocus.org.uk](http://www.consumerfocus.org.uk)

market ECM-18 may not lead a more competitive market overall. We are particularly sceptical that generators behind the derogated boundary will become more efficient when faced with the higher constraint costs; it seems just as likely they will pass through the costs to suppliers and thus consumers.

If you have any questions on any of the points above please feel free to email my colleague Andrew Hallett at [andrew.hallett@consumerfocus.org.uk](mailto:andrew.hallett@consumerfocus.org.uk).

Yours sincerely,



Robert Hammond  
Head of Regulated Industries