

Information Note

27 May 2011

OFGEM SETS OUT WAY FORWARD FOR WORK ON ELECTRICITY TRANSMISSION CHARGING

Energy regulator Ofgem has today set out options for how the charges users pay for the high-voltage electricity network could be set in future.

The options will be evaluated as part of **Project TransmiT**, Ofgem's independent and open review of transmission charging and associated connection arrangements. It aims to ensure the electricity connection and charging regimes are fit for purpose.

The review has identified options for changes to the charging system which could be introduced from next year, if the analysis shows they would be beneficial. Ofgem will be using its new powers to propose major changes to industry rules governing the electricity grid to progress these changes. Once these measures are in place, Project TransmiT will conclude.

The options which Ofgem has put forward for evaluation range from:

- a postage stamp approach to recovering the costs grid companies face for providing network infrastructure. It would mean that the same uniform tariff would apply to all generators for transmitting electricity, whatever their type and wherever they are located. (Another set of uniform tariffs could apply to demand users.) Through to;
- a transmission charging model that is still based on a generator's location, but with improvements to the current arrangements to reflect the way use of the grid is changing, e.g. to better reflect a user's impact on transmission infrastructure. This could potentially mean intermittent generation would see lower transmission charges.

Ofgem will now do further work with National Grid and the industry looking openly and transparently at the impact of these potential options. Once this is done Ofgem will publish a consultation on the options in the autumn.

Ofgem is proposing to take forward the next phase of this work by using new powers to propose major changes to industry rules governing the grid. Last year, Ofgem made changes to the way in which the industry is governed and introduced a new mechanism for coordinating changes to industry rules. This mechanism – a Significant Code Review – is designed to facilitate complex and significant changes to industry rules. It provides a role for Ofgem to play a leading role in facilitating changes. Ofgem is proposing to use the Significant Code Review mechanism to take forward our remaining work on grid charging.

Our work to date has also identified other options which would require a more fundamental change to the charging and wholesale market trading arrangements in Britain. Some of these options may be relevant to ensuring that Britain's charging arrangements are compatible with the development of electricity market arrangements in Europe going forward. We will continue to consider the consequences of these developments for arrangements in the UK.

Ends

Note to Editors

Ofgem has published an open letter to stakeholders on the way forward for Project TransmiT at: <http://www.ofgem.gov.uk/Networks/Trans/PT/Pages/ProjectTransmiT.aspx>

1. The consultation which Ofgem will publish this autumn will be done as part of a Significant Codes Review. This allows Ofgem to put forward options to bring changes, including to the industry codes that govern use of the networks.
2. Ofgem launched Project Transmit in September 2010 with a call for evidence where the regulator set out the aim of the review is to "ensure that we have in place arrangements that facilitate the timely move to a low carbon energy sector while continuing to provide safe, secure, high quality network services at value for money to existing and future consumers". In January 2011 Ofgem announced that the immediate priorities for the review were electricity transmission charging and electricity connection issues. For more information on Project TransmiT, see Ofgem's Factsheet: <http://www.ofgem.gov.uk/Media/FactSheets/Documents1/TransmiTFS.pdf>
3. The work program on connections under Project TransmiT is unchanged. For more information, see Ofgem's open letter of 22 March 2011: http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110322_TransmiT_Connections_Consultation_FINAL.pdf
4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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