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27<sup>th</sup> June 2011

By email

Dear Hannah,

**RE: Project TransmiT: approach to electricity transmission charging work – Centrica response**

Thank you for the opportunity to respond to this consultation. This is a non confidential response on behalf of the Centrica group of companies excluding Centrica Storage Ltd.

In summary, our position is as follows:

- Centrica is concerned that progress to date on the review of charging has been very limited. TransmiT continues to create significant uncertainty for users which is potentially delaying investment decisions. We believe that meeting the April 2012 target date is now improbable and we ask Ofgem to provide a revised timetable which will be adhered to and does not unnecessarily extend the duration of the review.
- We welcome the exclusion of complex market splitting charging options (including LMP) from the review. However, given the lack of evidence to substantiate the arguments, we do not believe that postalisation should continue to be considered as part of the review either. Postalisation reduces cost reflectivity, removing the incentive to locate in economically efficient locations, and ultimately results in significantly increased charges for customers.
- Centrica supports an 'improved ICRP' option. This option should retain the majority of the current arrangements but address some of the stresses such as the distortion of

onshore TNUoS tariffs resulting from OFTO revenues and the need to improve the transparency and the predictability of charges.

- A SCR may be appropriate if Ofgem pursues postalisation as an option, given that it would represent a significant change. However, it is essential that, if launched, industry is fully engaged in the development of options under the SCR process and that the focus is on arriving at a timely conclusion.

## **Progress to date**

Centrica is concerned about the lack of progress since the launch of project TransmiT in September 2010. The TransmiT timetable has consistently stated that the spring document would consult on charging options, with recommendations at the end of the summer (and launch of SCR if appropriate). These timescales appeared challenging, but feasible and necessary if any changes were to be implemented by April 2012.

Given the good level of engagement achieved with industry and other stakeholders to date we do not understand why the current open letter still does not seek views on charging options. It appears that the implementation of any new arrangements has been significantly delayed, adding to the uncertainty for generators and suppliers, and potentially having a negative impact on investment decisions. We believe that meeting the April 2012 target date is now improbable and we would ask Ofgem to provide a revised timetable with clear milestones which will be adhered to and does not unnecessarily extend the duration of the review.

In parallel with project TransmiT, we note that DECC is currently reviewing the case for a section 185 scheme for renewable projects in the Scottish Islands. We would ask Ofgem to provide its understanding on how this review interacts with work the current being undertaken for project TransmiT and ultimately any conclusions that Ofgem makes.

## **Options**

We welcome the exclusion of options that involve changes to the market arrangements. These options, such as LMP, would have evident implementation issues, a negative impact on investment and, given the overlap, would have created additional uncertainties around integration with the EMR review. Of the three broad approaches identified by Ofgem: a) postalisation; b) status quo c) improved ICRP, we support the latter.

Given the lack of evidence submitted to substantiate arguments advanced by the postalisation lobby, we do not believe that this option should continue to be considered as part of the review. Postalisation would remove all cost-reflectivity from transmission charging, effectively resulting in the cross-subsidisation of generators and consumers; remove the incentive to locate in economically efficient locations, and ultimately result in increased charges for customers. The report by Nera consulting and Imperial College London, and commissioned by RWE, supports this view, estimating that the net cost to consumers of moving to a postage stamp charge

would be £20 billion in NPV terms relative to a system with locational generation TNUoS. Finally, contrary to some users' arguments, we have not seen any strong evidence that current arrangements are deterring economic and efficient investment in Scotland.

Overall, Centrica believes that the existing regime is generally fit for purpose, although there are clearly some issues requiring resolution, some of which have resulted from previous "bolt-on" fixes to the current regime. Amongst the most pressing issues is the distortion of onshore TNUoS tariffs resulting from the treatment of OFTO revenues. We also believe that significant improvements in the transparency and the predictability of transmission network and system charging are required<sup>1</sup>. Ofgem should focus on these issues between now and the October consultation and we look forward to engaging fully in this process.

### **Significant Code Review (SCR)**

Given that postalisation would represent a significant change, a SCR may be appropriate if Ofgem pursues postalisation as an approach. The original intention was for SCRs to be reserved for major strategic changes which would have a significant impact on competition and / or customers. We would argue that changes that are purely limited to improving the current ICRP arrangements would not necessitate a SCR, and that in the absence of the postalisation option a SCR would not be justified.

Should a SCR be launched, it is essential that industry continues to be fully engaged in the development of options before the October consultation and that there is a strong focus on arriving at a timely conclusion. We therefore ask Ofgem to provide full transparency as early as possible on the modelling work being undertaken, which we hope will include work on the more incremental changes to the ICRP methodology, and clear instructions on how industry users can best contribute to this work.

We hope that these comments have been useful and we remain committed to proactively engaging in TransmiT. If you want to discuss any element of this response, please do not hesitate to contact me on 07789 579169 or at [Ricky.Hill@centrica.com](mailto:Ricky.Hill@centrica.com).

Yours sincerely,

Ricky Hill  
Senior Analyst  
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<sup>1</sup> Refer to Centrica's response to the call for evidence for more information on this:  
[http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/Centrica\\_exc\\_Centrica\\_Storage\\_Paper\\_and\\_Appendices.pdf](http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/Centrica_exc_Centrica_Storage_Paper_and_Appendices.pdf)