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Reference Number: 73/11

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Date: 24th June 2011.

Project TransmiT: approach to electricity transmission charging work

Sirs,

SmartestEnergy welcomes the opportunity to respond to Ofgem's approach to electricity transmission charging work.

Overview

We are surprised at Ofgem's decision to restrict the remit of Project:TransmiT to improve the TNUoS methodology alone; we are coming round to the view that there is merit in re-evaluating the concept of locational BSUoS on the grounds that consideration of the cost of constraints is inseparable from transmission. We also note that in Ofgem's decision letter dated 1st March 2010 to veto GB ECM-18 ("Locational BSUoS") it stated that there are "strong arguments in favour of the more cost-reflective allocation of the costs of constraints" and went on to say that "there may be a need for NGET to further consider forms of locational constraints charging." Project:TransmiT provides the perfect opportunity to explore these possibilities.

We are not opposed to Ofgem dealing with BSUoS separately from TransmiT. However, it is important that the principles which guide TNUoS (such as locationality, cost-reflectivity and European harmonisation) are affirmed as

principles which stand for other developments to ensure that a consistent message is sent to the market.

We are opposed to socialisation of TNUoS costs on economic grounds; generation and demand should pay for the costs they impose on the system.

Whilst the document "Project TransmiT: approach to electricity transmission charging work" does not directly address the issue of embedded benefits we believe that the principle of paying embedded generators the reverse of the demand TNUoS still stands as local generation is obviating the use of the Transmission network.

Consistent with developments on the distribution side we believe that there should be more asset related charging on the Transmission network and can accept that this element should not be part of the embedded benefit.

However, it is important that the methodology places more of the proportion of costs on demand as this is consistent with European charging and to some extent this should protect the embedded benefit from the removal of sole asset costs from the current regional TNUoS charging.

We are concerned about the aggressive timescales for change which are being proposed by Ofgem. We do not think that changes should be made in time for 2012/13. Time is required to develop a robust methodology (as has been the case for the Extra High Voltage Distribution Charging Methodology) and it would be inappropriate to implement changes without sufficient lead time for suppliers to make the necessary adjustments to their contracts (which are often fixed for two to three years)

Response to the approach

We note that Ofgem welcome views on whether the review of the options for changes to the TNUoS charging arrangements under TransmiT fulfil the SCR criteria ; and on what participants' views are on the need, scope, scale and indicative timescales for the SCR.

We address each of these issues in headed sections below.

SCR criteria

Whilst we are supportive of improving the TNUoS methodology and using an SCR to achieve this, we are regrettably not convinced that Ofgem's own criteria are met.

Let us consider the criteria against which Ofgem will decide whether to initiate an SCR:

- 1) "The solution to the issues raised...can be given effect wholly or mainly through code changes."

The scope of Project:TransmiT probably meets this criterion but it is rather self evident that it would. Indeed, industry proposals could achieve the same effect. We believe, though, that an SCR would provide focus and eliminate fruitless modification proposals.

- 2) "The Authority considers those issues are significant in relation to its principal objective and/or its other statutory duties and functions..."

The key word here is "significant" and in the light of the reduced scope we believe that it is not significant. It would be more significant if issues such as locational BSUoS were included.

- 3) "The area of work is likely to create significant cross-code or code-licence issues."

Narrowing the focus to TNUoS means that significant cross-code or cross-licence issues have not been created. However, in the same way that distributors have been obliged to address their distribution charging methodologies it is now appropriate for NGT to be. If this can only be done by means of an SCR we are supportive.

Scope and scale

It is correct that more fundamental change such as market splitting is not appropriate for Project:TransmiT. We are not against market splitting per se and it is a shame that these proposals could not be considered in the

governments' recent EMR, but as is suggested in the letter, this issue may be driven by European developments.

It is also appropriate not to address embedded benefits generally at this stage.

We are concerned, however, that the prospect of change in wholesale markets (such as market splitting) may influence certain choices made at this stage even when there is no certainty that wider changes will take place, especially if there is an inclination to opt for anything that resembles socialisation.

In splitting the "emerging options" into two broad groups ("options that imply wider change" and "options to change transmission charging (TNUoS) alone") Ofgem appear to have omitted consideration of BSUoS which we feel is relevant under transmission charging.

On the "spectrum of emerging options" the only feature which is common to all approaches is "uniform SO charges." This is presumably because it is perceived that Ofgem have made a determination on a locational BSUoS proposal last year. However, Ofgem did not rule out consideration of locational BSUoS in their determination letter of 1st March 2010 and the current flat arrangements seem at odds with a market splitting option, for instance, and even Improved ICRP. Ofgem should, therefore, be prepared to include BSUoS in the scope of Project: TransmiT.

We noted in the previous scoping consultation that Ofgem were seeking views on whether the existing charging and connection arrangements for electricity and gas transmission facilitate the achievement of their objective, i.e. to facilitate the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers. The revised focus of Project TransmiT appears to have slightly lost sight of this aim and it needs to be restated; it must be within the scope of this project to assess the incentives associated with off-shore wind (for which there is no shortage of investment) and on-shore renewables which are more in line with a localised, low-carbon future.

It is a surprise that the scope does not make mention of NGT's role in the business of transportation across all networks and the tensions between transmission and distribution pricing. Any future and more thorough review should address these issues.

Need

The divergence of views in the spectrum of options leads us to conclude that for many this is not about a need for change in the interests of consumers nor the move to the low carbon economy, merely an ideological debate between two diametrically opposed viewpoints. The change these views espouse is significant; the need for significant change is not proven but the approach document does not make this point explicitly.

Timescales

The issue of timescales concerns us on two scores.

Firstly, we are somewhat surprised that a review which was kicked off with a call for evidence in September 2010, and for which there has been considerable time to consider the scope and process should spend comparatively little time on discussion of the detailed arrangements. Dealt with properly these are difficult issues worthy of lengthy consultations on substantive issues with wider implications.

Secondly, and more importantly, in common with other suppliers we enter into fixed price contracts with customers for up to three years ahead. To change to pricing arrangements with such short notice would present a best an uncertainty and a need to reopen arrangements with consumers and at worst a considerable financial risk

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours faithfully,

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