

To generators, shippers, suppliers, network companies, consumers and their representatives, the sustainable development community, and other interested parties.

Promoting choice and value for all gas and electricity customers

Reference Number: **106/11**
Email: Project.TransmiT@ofgem.gov.uk

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Dear colleague

Project TransmiT: update on connections issues and consultation on timely connections reporting obligation

Project TransmiT is Ofgem's independent and open review of transmission charging and associated connection arrangements. The aim of TransmiT is to ensure that arrangements are in place that 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. As set out in our January 2011 letter¹ our immediate priorities are electricity connection issues and electricity transmission charging.

This letter focuses solely on the electricity connection issues we are considering under TransmiT. We are considering the charging issues under a Significant Code Review (SCR), which we launched in July 2011; details of which are available on our website².

In March 2011, we consulted on the electricity user commitment arrangements and timely connections issues under Project TransmiT³. Here we provide an overview of responses to our March consultation (annex 1 provides further details) and set out our intended way forward.

In particular, we set out that we do not intend to consult at this stage on whether a SCR may be appropriate to identify changes to the electricity user commitment arrangements. We consider that at this time it is appropriate to monitor the industry development of Connection and Use of System Code (CUSC) Modification Proposal 192 (Arrangements for Enduring Generation User Commitment) ("CMP192")⁴. We expect the industry process to

¹http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110125_TransmiT_Scope_Letter_Final.pdf

²http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110707_Final%20launch%20SCR%20statement.pdf

³The consultation letter is available at:

http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/110322_TransmiT_Connections_Consultation_FINAL.pdf

⁴ CMP192 seeks to introduce into the CUSC a new methodology that would be used to determine individual generators' liabilities and the level of security required against these liabilities. The modification proposal is available on NGET's website: <http://www.nationalgrid.com/NR/rdonlyres/D2D6F81D-7C3E-4049-8429-817E6A5DA657/45775/CMP192EnduringUserCommitmentv1.pdf>

conclude in a timely manner, and for a modification report to be submitted to Ofgem by November 2011 at the latest, following which we will make a decision on the proposal.

We are also seeking views on the scope and drafting of the reporting requirement we propose to include in the standard licence conditions of the electricity transmission licence. The purpose of the proposed reporting requirement is to provide us with information to inform our view on what, if any, changes to the existing framework may be appropriate to better facilitate timely connections. We welcome views on the proposed licence reporting requirement by **23 September 2011**.

Background

As noted in our January 2011 letter, respondents to our call for evidence that commented on electricity connections issues generally supported the Connect and Manage regime for accessing the electricity transmission system⁵. However, respondents noted there are still significant issues that they considered hampered connection. Indeed, certain connection issues are considered by some to be as big a hurdle to projects connecting to the system as transmission charging is perceived to be. One of the biggest issues is the arrangements relating to user commitment.

In December 2010, we issued a consultation on options for delivering timely connections⁶. We have also supported the work by NGET to deliver interim pre-commissioning user commitment arrangements.

In March 2011, we issued a consultation on the connection issues under Project TransmiT. We set out the high-level principles that we consider are relevant to the development of new enduring electricity user commitment arrangements and the process for developing new arrangements. We sought views on what may trigger us to launch a SCR on electricity user commitment. We also sought views on the new transmission licence reporting obligation that we propose to introduce, to gather further information in support of arrangements to facilitate timely connections.

Electricity User Commitment

There was a range of views on user commitment expressed in responses to our March consultation. Whilst some respondents welcomed the ongoing development of CMP192, some expressed concerns that the proposal was too narrow or that it would not resolve difficulties for developers in all areas. Whilst a small number of respondents considered it may be appropriate to launch a SCR to develop enduring user commitment arrangements, others considered that the ongoing CUSC process could deliver a solution.

We note that there have been some delays to the CUSC process on CMP192, as the working group has twice sought extensions from the CUSC Panel to the timetable for its development of the proposal. However, we are currently satisfied that the CUSC process is now progressing well, and do not intend at this stage to consult on launching a SCR on user commitment. We welcome the progress that has been made so far in the development of

⁵ Connect and Manage was introduced by Government in August 2011. Under Connect and Manage, generators can access the transmission system ahead of wider reinforcements being completed, subject to 'enabling works' being completed. More information is available on DECC's website:

http://www.decc.gov.uk/en/content/cms/consultations/improving_grid/improving_grid.aspx.

⁶<http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/121410%20timely%20connection%20draft%20letterdoc.pdf>.

the proposal, and note that CMP192 is currently the subject of a working group consultation⁷. We expect the remainder of the industry process to conclude in a timely manner, and at this stage we are not aware that the working group expect to seek any further extensions from the CUSC Panel. We expect that we will be presented with a final report on CMP192 no later than November 2011, following which we will make a decision on the proposal.

In relation to the high-level principles that we identified as being relevant to an enduring user commitment solution, we note that a majority of respondents considered these to be appropriate, although some considered these too high level or proposed additional principles. We continue to consider that the high-level principles we have identified are appropriate. We note that some respondents set out their views on what they considered to be other relevant considerations for an enduring user commitment solution and what they considered to be flaws of CMP192. We note these points and, where relevant and appropriate, will take such representations into account in making a decision on CMP192.

Timely Connections

Whilst some respondents to our March consultation did not consider that a reporting obligation for timely connections was necessary, the majority of respondents supported or did not oppose the introduction of this obligation. Some respondents commented on potential incentives and/or potential compensation arrangements to facilitate timely connections.

We noted in our March consultation that potential output measures and incentives arrangements for timely connections are being developed as part of RIIO-T1⁸. We also noted that it is not clear at this stage whether additional commercial changes are needed to support a potential incentives mechanism, particularly as the enduring Connect and Manage regime is still bedding down

We continue to consider that there are benefits in introducing a timely connections reporting obligation within the transmission standard licence conditions. The reporting obligation would provide us with appropriate information in a timely way, to inform our ongoing consideration of whether any changes to the existing framework are needed to facilitate timely connection. We think it will have the additional benefit of increasing transparency around likely timescales for connecting under the connections process, as we are proposing that the licensees will produce a report that can be published.

The approach we are adopting is also consistent with our RIIO-T1 strategy decision to introduce an output measure on conditions for connection⁹. We identified the existing obligations as the basis for the proposed connections output, together with the introduction of a financial penalty to reinforce these obligations. Further work on the price control will consider the information that would be used to develop these arrangements and how such an incentive might work. The proposed reporting obligations for timely connections could,

⁷ Available on NGET's website: <http://www.nationalgrid.com/NR/rdonlyres/179CC9F2-F71B-4862-86EA-8847892DD225/48255/CMP192WorkgroupConsultationFinalv10.pdf>

⁸ More information on RIIO (Revenue = Incentives+Innovation+Outputs) is available on our website: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/Pages/RIIO-T1.aspx>

⁹ See pages 89-90 of "Ofgem, Strategy for the next transmission price control – RIIO-T1 Outputs and incentives (Supplementary Annex)", 31 March 2011. This is available on our website: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decisionoutput.pdf>.

as suggested in RIIO-T1, provide information that supports the development of the output measure and incentive arrangements.

We have set out in annex 2 a draft of the proposed modification of the transmission standard licence conditions to introduce this reporting obligation. Our initial view is that the reporting requirement should apply to onshore transmission licensees only at this point. We will continue to consider, in the context of the ongoing development of the offshore transmission regime, whether there may be benefits in also including this as a reporting requirement for offshore transmission licensees. We would welcome views on this in responses to this consultation, and views on the scope and drafting of the proposed modification.

Next steps

We welcome responses on the issues discussed in this letter by **23 September 2011**. All responses will be placed on our website unless marked as confidential. Please email your response to Project.TransmiT@ofgem.gov.uk.

In particular, we would welcome respondents' views on the scope and drafting of the new reporting obligation we are proposing to introduce. Subject to responses to this letter, we expect to issue a statutory consultation on a proposed licence modification in late September 2011, with a view to a new obligation being in place, if appropriate, from late autumn 2011.

Please contact Lesley Nugent (lesley.nugent@ofgem.gov.uk) should you require any more information on the issues discussed in this letter.

Yours faithfully

Hannah Nixon
Partner, Transmission

Annex 1: Summary of responses

We received 18 responses to our March consultation on connection issues under TransmiT. All responses are available in full on our website¹⁰. A high-level summary according to some key themes raised in responses is set out below.

High level principles for developing enduring connection arrangements – the majority of respondents that commended on the high level principles proposed supported them, with a number of respondents suggesting additional principles. A number of respondents did not agree with our high level principles arguing that they are too high level or that other proposed principles are better. Suggested high level principles from respondents included, for example, promoting the decarbonisation of the electricity sector and the achievement of any more specific government targets for the sector; compliance with European Union requirements; that transmission investment and securitisation should reflect the project and investment timescales for the developer and TO. One respondent commented that discrimination is not an issue so long as it is justified and similarly unjustified similar treatment would be discrimination. While another commented that it is disconcerting that an unfair system, loading liability and demands for security on pre commissioning generators may be succeeded by another disproportionate system which seeks to load the liability for the value at risk of the whole network onto all users.

User Commitment – a number of respondents commented that they welcomed CMP192 although some noted that consideration of what is proposed is at an early stage. Several respondents commented that there is too much focus in the proposal on user commitment for existing generators with some respondents expressing concern over the proposal to increase the user commitment period to four years. A number of respondents also commented that the risk of stranded assets had been over emphasised. One respondent was concerned that difficulties surrounding user commitment for existing generators should not delay changes to user commitment arrangements. Another respondent argued that the type of technology should influence the level of user commitment. While another commented that the overall level security to NGET should not increase under any new arrangements. However a few respondents voiced concerns that the proposal was too narrow or that it would not resolve difficulties for developers in certain areas without strategic investment for grid infrastructure being approved.

Triggers for a SCR on user commitment – one respondent commented that the changes proposed should be dealt with under a SCR as it considers the scope of CMP192 is too limited. Another respondent took the view that firm direction needs to be given by Ofgem as the changes proposed may be too great for the CUSC panel. However, in general, most respondents supported the CMP192 process and were less supportive of launching a SCR, with one commenting that even a failure to agree a solution in the usual timescales should not be used as a reason to launch a SCR. A number of respondents did take the view that if the CMP192 fails to result in a solution this could be a trigger for a SCR.

Proposed 'timely connections' reporting obligation – most of the respondents either supported or did not oppose the introduction of a reporting obligation in respect of connection requests. Some of these respondents felt that this obligation would increase the transparency of this process while another commented that it's important that focus is maintained on realising the benefits of Connect and Manage and if this requires further information to be gathered then it supported this obligation. Another respondent strongly

¹⁰ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=92&refer=Networks/Trans/PT>

supported the introduction of this obligation and considered that it should also be proposed for Distribution Network Operators (DNOs). However, other respondents did not consider that this obligation is needed. Instead they took the view that, although the proposal may have some merit, it was not a substitute for normal industry practice or engaging with industry. Another respondent commented that it would be difficult to envisage a reporting requirement that would be meaningful and capture the areas that could be improved.

Scope of reporting obligation – a number of respondents commented that if a reporting obligation is introduced it should result in information to Ofgem that reflects the views of all stakeholders (the system operator (SO), transmission owners (TOs), DNOs and developers). One respondent suggested this could be achieved by including on the SO an obligation to inform parties seeking to connect that they can express views on the connection process to Ofgem. One respondent commented that one area of performance that could be reported and measured is the provision of an initial quotation and associated planning applications and it suggested that any reporting requirement is focused on this area. This respondent also highlighted the decision in the RIIO-T1 strategy document that proposes automatic financial penalties against existing obligations at the connection offer stage. To do this the respondent considered that a new TO reporting obligation is required and it is therefore sensible that any new reporting requirements introduced as part of Project TransmiT are aligned with the new RIIO-T1 obligations.

Potential incentives mechanism for timely connections – some respondents commented on this, with one respondent saying that a broad environmental outputs measure and financial incentive should be put in place under RIIO as a real driver on network companies to connect quickly and to seek ways to reduce delays (whether directly or indirectly in their control) which it considers would benefit individual projects and consumers. One respondent stated that it may be feasible for some compensation arrangements where the late delivery of a connection date can be directly linked to the actions of a TO, but acknowledged that it would be difficult to quantify an appropriate arrangement. This respondent hoped that this is something the TOs might consider as part of their customer-focused business plans under RIIO-T1. Another respondent considered that, on balance, connections are a licence requirement and further financial incentives are not appropriate at this time.

Annex 2: Proposed draft licence modification

We propose to insert the text below as a new paragraph 11 into standard licence condition C8 (Requirement to offer terms) of the electricity transmission licence:

"11. On and from [date condition in effect], the licensee shall, unless the Authority directs otherwise, submit a report to the Authority by 31 March and by 30 September each year in relation to all offers made under paragraph 3 of this condition in the preceding 6 month period setting out the factors which have influenced the date identified in each offer in accordance with sub-paragraph 3(e) of this condition including the following information:

- (a) the timescale for the connection and how this may vary by location, type and size of the connection;
- (b) key issues that impact the timetable for delivery of the connection; and
- (c) any issues likely to impact timing of connections going forward.

A non-confidential version of the report must also be published by the licensee within [10] working days of submission to the Authority."

We propose to insert the text below as a new paragraph 5 into standard licence condition D4A (Obligations in relation to offers for connection etc) of the electricity transmission licence:

"5. On and from [date condition in effect], the licensee shall submit a report to the Authority by 31 March and by 30 September each year in relation to all offers made under paragraph 1 of this condition in the preceding 6 month period and setting out the factors which have influenced the date identified in each offer in accordance with sub-paragraph 1(d) of this condition including the following information:

- (a) the timescale for the connection, and how this may vary by location, type and size of the connection;
- (b) key issues that impact the timetable for delivery of the connection; and
- (c) any issues likely to impact timing of connections going forward.

A non-confidential version of the report must also be published by the licensee within [10] working days of submission to the Authority."