



To all interested parties

*Promoting choice and value for
all gas and electricity customers*

Email: Project.TransmiT@ofgem.gov.uk

Date: 9 September 2011

Dear colleague

Project TransmiT: electricity transmission charging Significant Code Review update

Project TransmiT is Ofgem's independent and open review of transmission charging and associated connection arrangements. The aim of Project 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. Electricity transmission charging is one of the immediate priorities for Project TransmiT.

In July 2011, we launched a Significant Code Review (SCR) under Project TransmiT, to review National Grid Electricity Transmission plc's (NGET) current transmission network use of system (TNUoS) charging arrangements and, if appropriate, to identify potential changes. Since July, we have been working hard with industry to develop options for change, through the technical working group that we have established and through other stakeholder engagement. We welcome the engagement of stakeholders so far, which has meant that we have been able to make significant progress under the SCR in a timely way. This letter gives an overview of progress to date, and discusses the timetable going forward.

In particular, it sets out that, as a consequence of some of the feedback we have had from stakeholders in the course of the SCR so far, we think it is appropriate to add some additional steps to our process. This includes extending the scope of the modelling work commissioned and giving the technical working group and other stakeholders an opportunity to consider and comment on the outcomes of the modelling, so that we can take this into account in our consultation on options for change.

This means that it is necessary to extend the timetable for the SCR. We now expect to consult on potential options for TNUoS change in December 2011, and make our final recommendations, along with any direction to NGET if appropriate, under the SCR in spring 2012. Implementation of any change, if appropriate, would therefore be after April 2012, the potential implementation date we identified previously. However, we continue to urge industry to implement any appropriate changes as quickly as practicable after we issue our final recommendations under the SCR.

Background

We launched Project TransmiT in September 2010 by issuing a call for evidence¹. We published an open letter in January 2011², which confirmed the initial view set out in our call for evidence, i.e. that electricity connection issues and electricity transmission charging should be the immediate priority for Project TransmiT.

We issued a letter in March 2011, giving an update on our work on charging under Project TransmiT³. Our update letter noted that from the work carried out by our academic advisors, dialogue with stakeholders and responses to our call for evidence, interactions with our work on network constraints, and participation in discussions in Europe, a spectrum of options is emerging. The letter noted that the range of options reflects the divergent views on the importance of cost reflectivity and about the ability of the current arrangements to help deliver a balanced, sustainable and diverse generation mix.

In May 2011, we issued a further letter⁴, setting out that our charging work under Project TransmiT will focus specifically on the charging arrangements that seek to recover the costs of providing electricity transmission assets, i.e. TNUoS charging. We sought views on our proposal to progress this work through a SCR, and on the need, scope and scale of a SCR. We noted that options that imply wider changes (e.g. to the GB market arrangements) are not within the scope of Project TransmiT.

In July 2011, we launched the SCR to review NGET's current TNUoS charging arrangements and, if appropriate, to identify potential changes. The SCR launch statement⁵ set out that we would establish a technical working group to help us identify the technical detail of options for TNUoS change, and that there would be additional opportunities to engage with stakeholders more widely on the issues we are considering under the SCR. We noted that we would undertake modelling work to quantify the impacts of potential change. We set out that we expected to consult on potential options for change in October 2011, and issue our final recommendations in December 2011. We urged stakeholders to work with us to deliver change, if appropriate, for implementation in April 2012, although we noted that this was an ambitious and challenging timetable.

Progress to date under the SCR

We have made a lot of progress to date under the SCR. We have established and chaired a technical working group of 14 industry participants, representing a wide range of stakeholder interests. Between July and September the working group has made significant progress towards identifying single variants of 'socialised' and improved 'Investment Cost Related Pricing' (ICRP) approaches to TNUoS charging to be modelled alongside the existing approach. Agendas, papers and minutes for the working group meetings are available on our website⁶.

Redpoint are committed to providing Ofgem with an initial draft of their modelling results for each of the 'core' packages – status quo, improved ICRP and socialised charging options by the end of September 2011. This work is currently underway.

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Networks/Trans/PT>

² <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=80&refer=Networks/Trans/PT>

³ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=93&refer=Networks/Trans/PT>

⁴ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=114&refer=Networks/Trans/PT>

⁵ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=141&refer=Networks/Trans/PT>

⁶ <http://www.ofgem.gov.uk/NETWORKS/TRANS/PT/WF/Pages/WebForum.aspx>

We also held a well attended stakeholder event in London in August which discussed progress by the technical working group and with the modelling and provided stakeholders with an opportunity to give us feedback on the charging issues under the SCR.

Stakeholder feedback

In the course of the working group process and our wider stakeholder engagement we have received a considerable amount of feedback, amongst other things on:

- Challenges of the timetable for the SCR
- The extent of model testing and validation that would be possible within that timetable
- The scope of the modelling work, and the intention to model one version each of a socialised and improved ICRP approach
- The extent to which the working group and stakeholders more widely can engage with the modelling outputs, prior to Ofgem consulting on options for change.

Additional steps under SCR

We have listened to this feedback and decided to add some additional steps to our process, to make sure we take account of and respond to stakeholders' views.

We therefore intend to carry out additional model testing with Redpoint, and will involve the technical working group in this exercise. We will also do additional work to model sensitivities and a number of key policy options for both postalised and improved ICRP options, again involving the working group. We intend to extend the terms of reference and timescales for the working group so that it can take the outcomes of the modelling work, including this additional work, into account when finalising its report.

We will also hold an additional stakeholder event in November, to provide an opportunity for stakeholders more widely to comment on the options we have developed with the working group and the outcomes of the modelling work.

Timetable

Including these additional steps within the SCR process will enable more testing and analysis and more stakeholder input, helping to ensure our conclusions are robust. It does however mean that it is necessary to extend the timetable for the SCR. We now intend to issue a consultation on the options for change and their impacts in December 2011 with a view to making final recommendations in spring 2012.

As noted above, this means that implementation of any change, if appropriate, would be after April 2012, the potential implementation identified previously. We continue to urge industry to implement any appropriate changes as quickly as practicable after we issue our final recommendations under the SCR.

We look forward to the continued and valuable support of the technical working group to the SCR process, and to ongoing positive engagement with stakeholders more widely, in the first instance in the event we will hold in November (the details of which are still to be confirmed).

Please contact Anthony.Mungall@ofgem.gov.uk if you would like to discuss any of the issues in this letter.

Yours sincerely

Hannah Nixon
Acting Senior Partner, Smarter Grids and Governance: Transmission