

Charles Hendry MP

Minister of State

Department of Energy & Climate Change

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Your ref: 188/11

Our ref:

Alistair Buchanan CBE
Group Chief Executive
Office of Gas and Electricity Markets
9 Millbank
London
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14 February 2012

Dear Alistair,

PROJECT TRANSMIT - ELECTRICITY TRANSMISSION CHARGING: ASSESSMENT OF OPTIONS FOR CHANGE. DECC RESPONSE

1. DECC welcomed Ofgem's decision to review the transmission charging regime through Project TransmiT to ensure that it delivers our shared goals of facilitating low carbon electricity generation and maintaining security of supply, whilst minimising the consumer costs .
2. Decisions on the details of the transmission charging methodology are taken by Ofgem, but DECC has a clear interest in ensuring the overall policy framework delivers our energy goals.
3. DECC supports the thorough and robust approach Ofgem has taken in the course of Project TransmiT, particularly since the launch of the Significant Code Review last May. DECC also welcomes the detailed and open stakeholder engagement process Ofgem has pursued throughout Project TransmiT.
4. The detailed analysis supporting the review indicates the impact of changes to the transmission charging regime on the delivery of low carbon generation, security of supply and overall network and generation costs. It is important to recognise the work and expertise that the industry has put into developing the assumptions that underpin this analysis.
5. Any change to the transmission charging regime will result in winners and losers, both for owners of existing generation plants and developers of new ones. It is therefore important that any decisions support delivery of our energy goals across the GB electricity system.

6. DECC recognises the impact on overall network costs of the full socialisation approach as modelled and therefore supports Ofgem's recommendation to rule this option out.
7. In principle, DECC supports Ofgem's recommendation (the "Improved Investment Cost Related Pricing (ICRP)" option), which introduces the principle of taking account of load factor in calculating each generator's transmission charge.
8. Any technical changes to the charging regime based on the "Improved ICRP" approach will be worked up by the Connection and Use of System Code (CUSC) modification panel. It will be important for the panel to take account of the impact of these changes on overall network and generation costs as well as on investment decisions in different generation technologies in different locations. Costs to consumers also need to be kept to a minimum.
9. In particular, there are different ways of charging by load and only one methodology was developed for the purposes of the Project TransmiT modelling work. DECC would strongly encourage the CUSC panel to consider alternative ways of charging by load that reduce the impact on overall network and generation costs, whilst ensuring we continue to meet our energy deployment goals across the full range of technologies. It is important that any overall increase in costs to the consumer are justified in terms of the benefits delivered by higher deployment of low carbon generation and enhanced security of supply.
10. DECC would also encourage Ofgem and the CUSC panel to consider the concerns raised by the developers of renewable generation on the Scottish Islands. It is important that outcome of Project TransmiT treats the Scottish Islands fairly.
11. Government will continue to ensure that the Electricity Market Reform process works with the enduring charging regime delivered by Project TransmiT to provide an efficient and stable framework allowing developers to take the investment decisions we need.

Yours sincerely,

A handwritten signature in black ink that reads "Charles Hendry". The signature is written in a cursive style and is positioned above a horizontal line that extends to the right.

CHARLES HENDRY