
TRANSMISSION ACCESS – CASE FOR STATUS QUO

Ofgem's Vision

Perceived Need for Change

Current Arrangements

Contend There's No Need for Change

(at least, not in the way suggested)

Ofgem's Need for Reform

Need for firm tradeable access rights to be introduced due to:

- Inefficient generation investment due to incorrect transmission cost signalling
- Lack of firm long term contracts
- NGC's planning process not taking account of needs and intentions of Users
- NGC does not have incentives for investing in system and improve reliability
- Trading under NETA is distorted through lack of transmission cost targetting
- Current existence of cross-subsidies

Ofgem's Objectives

- Improve short and long term efficiency of operation of the transmission system
- Improve NGC Investment signals and incentives
- Improve NETA market transparency, identify abuse
- Encourage efficient location decisions for new plant (cost reflective pricing)
- Increase alignment of electricity and gas markets
- Ensure that access arrangements are robust to changes in interconnector flows

Ofgem's Key Elements of a new TA Regime

- Firm except where SO buys back
- Duration of several years at a time
- Trading between participants required and with SO
- Constraints costs targetted on participants
- SO incentivised to invest or not as the case may be.

Ofgem's Assumptions Are Therefore:

- The system is not operating efficiently
- NGC are not correctly incentivised
- Costing/charging methodology is not transparent
- Locational decisions are not efficient
- Current arrangements are not robust for Interconnector changes

and to correct these you must have a firm tradeable TA rights regime as provided by inclusion of the stated Key Elements.

Areas of Agreement

There are arguments that

- the system is not run efficiently at present and that
- Locational decisions are also not efficient at present.

But, I would contend that this because we have chosen to socialise TL, as well as smooth system reinforcement costs rather than pay deep entry charges.

Furthermore, I would contend that constraint costs are a 'red herring'

Constraint Costs

- Correction is already cost reflective.
- Levels are not high, they were but not now.
- Why should TA reduce them still further?
- How can they be targetted? Who is the polluter?
- NGC for taking circuits out, generation being available or not available, demand being too high or too low or for the disposition of generation and demand outside a constraint group.
- Given the difficulties of targetting, the only sensible solution is for the costs to be socialised.

Areas of Disagreement (1)

But I would contend strongly that

- **NGC are incentivised to operate efficiently and invest correctly**
- Why? Because they benefit directly from reducing constraints and invest in response to need or changing circumstances and against defined criteria (Planning and Operating Standards).

Why would it be more so in a TA Regime? In fact would it not be less so?

Areas of Disagreement (2)

- **Transmission costing/charging is transparent**
- Why? Because of published statements, TCMF and regulatory scrutiny.

What else needs to be or can be disclosed and why would this only be possible in a TA Regime?

Areas of Disagreement (3)

- **Current arrangements have been robust to Interconnector Changes**
- Why? Because there has been a number of contractual structures in place since 1990 and current methodology has enabled arrangements to be sensibly employed, providing consistency with current and new interconnections.

Why would it be more so in a TA Regime? But agree that it does need to be a test.

TR's Five Questions

- Rights are currently defined for the duration of the project, not for 'several years'. How else can you do sensible system planning?
- Quantity is based on RC
- All connected parties have rights and there is limited tradeability
- Contractual relationships are well understood, CUSC, Bilaterals and GC
- NGC investment based on customer need, customers have choice whether to accept. Investment set against PS criteria - TA will abolish PS? Future tests would be projected constraint costs against investment costs. Less precise and riskier.

In Conclusion

I contend that

- There is no need for such radical change
- Objectives have already been largely met by the current arrangements
- If anything, arguments and assertions call for more evolutionary changes
- Ofgem seek more cost reflectivity and targetting, although there is also an apparent fear of market abuse and that interconnectors will cause problems
- The desire for proper locational signals can be met by the introduction of
 - Locational TLFs (already being progressed in another forum), and
 - Deep Entry Pricing within the current methodology
- Introducing a TA regime will be costly, complex due to interaction with energy market (if not impracticable) and unnecessary, especially as constraints aren't an issue and if the concept of Deep Entry Pricing is openly embraced (rather than through the implicit means of TA).
- But if the concept of Shallow Entry Pricing remains as a political requisite then there is an even stronger case for no change to existing arrangements.