

BERR / Ofgem Transmission Access Review Dissemination Event

**BERR Conference Centre, 1 Victoria Street, London SW1H 0ET
Thursday 31 July 2008, 14.00 – 16.30**

This note has been taken by BERR / Ofgem to capture the key points made at the Transmission Access Review dissemination event. The first section summarises the points made during the presentations. The second part details the issues raised during the questions and answer sessions. The final section lists the attendees at the event.

Speakers

Steve Smith, Ofgem
Duarte Figueria, BERR
Stuart Cook, Ofgem
Alison Kay, National Grid
John Overton, BERR
Chandra Trikha, SSE

Introduction – Steve Smith

Steve Smith opened the event by giving a brief recap of the transmission access review project and setting out the objectives of the event.

- Set out BERR / Ofgem's conclusions from the TAR Final Report;
- Provide an update on the work ongoing in industry fora;
- Describe the process and terms of reference for the 2020 transmission system investment study;
- Explain how TAR and RES interrelate.

Transmission Access Review: Policy Context – Duarte Figueira (BERR)

Duarte Figueira set out the Government's energy policy objectives, providing detail on the recently published Renewable Energy Strategy, the challenges for the UK in delivering its share of the EU 2020 Renewable Energy, the implications for electricity networks and the measures underway to address key constraints to meeting the 2020 target, including the transmission access review.

Transmission Access Review Conclusions - Stuart Cook (Ofgem)

Stuart Cook set out the challenges that the Transmission Access Review was designed to address and the approach taken for the TAR and summarised the final conclusions of the TAR. These included the short-term measures to

connect new generation, the principles that should underpin the development of any enduring access regime and the measures underway relating to the delivery of new infrastructure. He also set out Ofgem's expectations of the various parties involved in delivering the TAR measures.

Transmission Access Review-National Grid's View - Alison Kay (National Grid)

Alison Kay set out the work that is currently underway and led by National Grid to deliver the measures set out in the TAR final report. She described the suite of framework changes that can be used to make up the different access models set out in the TAR, the approach taken in organising the work and the associated timelines for expected conclusion. She also provided an update on steps to manage the queue of generation and set out the process for short-term derogations under a "connect and manage" approach. The development of new incentive arrangements for transmission investment was also covered.

Network Investment – 2020 - John Overton (BERR)

John Overton focused on the new physical electricity network infrastructure that will be needed to enable the UK to meet its renewable energy commitment by 2020, challenges for delivering new infrastructure and the measures already underway. These included measures relating to planning and the work of the Electricity Networks Strategy Group, see www.ensg.gov.uk

Transmission System Investment Study - Chandra Trikha (SSE)

Chandra Trikha provided more detail on the joint study by the three GB transmission licensees being taken forward under the auspices of the ENSG. The study will address 2 questions (i) What level of renewables is the GB system good for without major new circuits (whether onshore or offshore)? (ii) What are the further investment options to accommodate the level of renewables that would meet 2020 targets?

Question and Answer Session

The aim is to offer a connection date that is commensurate with a project's development time, but what is considered to be the start date for that project?

Ofgem response: We want a regime that meets the objectives of the generators operating within that regime when it comes to connection dates being offered. Through the working groups and subsequent consultation, we will identify the appropriate parameters for timely delivery of access.

The TAR refers to consideration of appropriate incentives on the TOs to deliver new grid infrastructure on time, presumably through rewards, but what about penalties on the TOs where there is a failure to deliver?

Ofgem response: We have been clear on this throughout the TAR document. In general Ofgem believes in symmetrical incentives, and believes that the timely delivery incentives should be designed to provide both an incentive to build on time or early and a disincentive to deliver capacity late. As per gas, the disincentive could be in the form of buyback arrangements.

How does the SQSS review fit with the nuclear review?

Chandra Trikha answered, noting that one of the SQSS Review's five workstreams covered this.

Whilst the two month extension to CUSC Working Group timescales is welcome, still doubtful whether this leaves sufficient time for the Working Groups to develop proposed modifications in a robust way.

Ofgem response: We are facing a challenging programme of work, but we can not delay any longer. We have said the regime will be in by April 2010, and we do not intend to miss this. BERR has the option to legislate if it believes insufficient progress is being made. A lot is still left to be done, so we need to ensure we are working together as efficiently as possible.

What is the process for considering the six modifications once they have been submitted to Ofgem?

Ofgem response: We are looking to the CUSC working group and the panel to identify how the amendments fit together and what the impacts are both individually and together. However, the assessment framework is clear in relation to the CUSC objectives and our wider duties.

On CAP166, considerable work will be required to achieve a bespoke model for capacity auctions. How does Ofgem see the process for this going forward, and why does it regard capacity auctions as the correct long term solution?

Ofgem response: We have some experience of what has been a success and what has been less so from a number of years of gas auctions, and believe that the industry can come up with something that works. No one has provided a fairer way of allocating scarce capacity in a non-discriminatory manner. If any exist we would be keen to hear of them.

What is the point of an interim 'connect and manage' approach if longer term measures will be introduced as soon as 2010?

BERR / Ofgem response: Because that is two years away. The 2020 targets are challenging and we need to put in place improvements in the regime as soon as possible. Some of this can be achieved relatively quickly, such as elements of the form of connect and manage outlined in the TAR report. The form of connect and manage we set out in the TAR final report contain elements that are desirable in both the short and long term, and we should get on and implement them as soon as possible.

Whilst industry supports the TAR aims, there appear to be both easier and more difficult routes for achieving these. If the UK is to remain a good place to invest, the easier route should be chosen.

Ofgem response: We agree there is an easier route to reform, and we would not propose the hardest, unless it achieved the most benefit. We recognise the importance of investor certainty, and have set out our views on these issues in the TAR report. Ultimately firm delivery dates and clearly defined firm rights are in the interests of generators and consumers, and the industry and Ofgem are working on proposals for these at present.

Consistency is required between the TAR and the Offshore Transmission Regime.

Ofgem response: We recognise the interaction between the two regimes, and are working together internally, with BERR and with the Crown Estate to ensure that the onshore and offshore regimes are compatible. However, both regimes offer their own specific challenges which mean that whilst consistency is desirable, complete symmetry may not be.

Have the costs of relating to the changes that are needed to the networks been factored into the costs of the Renewable Energy Strategy?

BERR response: Analysis commissioned to inform the Renewable Energy Consultation that considered the costs associated with delivering the UK's share of the EU 2020 renewable energy target was published alongside the RES Consultation with those costs also being set out in RES document.

Does Ofgem consider that existing generators have long-term rights, and if not do they think there will be an impact on investor confidence if rights are taken away?

Ofgem response: We understand the importance of investor confidence, but this needs to be balanced with competition and fairness between customers and generators. In our view, the current arrangements do not promote certainty, with distant connection dates that are non-binding being a major problem. The annual rolling nature of rights also contributes to preventing new parties gaining access in a timely manner as incumbents can sterilise capacity. We consider that allowing all generators, regardless of type, to buy long-term rights will increase certainty, and therefore investor confidence.

We accept generators have annual rights that can be rolled over each year upon paying TNUoS, but these are set out in a modifiable document. All parties that signed the CUSC are well aware of the nature of the document. If generators are worried about future changes to the nature of their rights, it is more sensible for these rights to be clearly defined. The gas market shows positive examples of encouraging investment in a regime with finite long-term rights.

BERR/Ofgem TAR SEMINAR 31 JULY 2008

ATTENDEES LIST

Name	Organisation
Barbara Vest	AEP
Liz Anderson	Anderson Grounds
Duarte Figueira	BERR
John Overton	BERR
Phil Hicken	BERR
John Spurgeon	BERR
Ian Lomas	BERR
Giles Holford	BERR
Rob Rome	British Energy
Helen Babington	Cameron McKenna
Merel Van der Neut Kolfshoten	Centrica
Dave Wilkerson	Centrica
Kirsten Elliott-Smith	ConocoPhillips
Ed Reed	Cornwall Consulting
Stuart Cotten	Drax Power
Paul Jones	E.on UK
Patrick Smart	Econnect
Guy Buckenham	EDF Energy
David Scott	EDF Energy
Emma Luckhurst	EDF Energy
Sundee Klair	ENA
Tony Cotton	Energy Technical
Jake Dunn	ESBI
Martin Read	ESBI
Andrew Taylor	Intergen
Clive Pool	Jacobs
Mark Fitch	KEMA
Peter Baxter	Matrix Energy
Valmai Barclay	McGrigors

Nick Frydas	Merril Lynch
Chris Moore	MGT Power
Jasmina Bibezic	Morgan Stanley
Jonathon Smith	Morgan Stanley
Hedd Roberts	NGET
Patrick Hynes	NGET
Craig Maloney	NGET
Sarah Hall	NGET
Tom Ireland	NGET
Andrew Truswell	NGET
Alison Kay	NGET
Chris Bennett	NGET
Rachel Fowler	Npower
Jerry Hauber	Npower
Steve Smith	Ofgem
Stuart Cook	Ofgem
David Hunt	Ofgem
Min Zhu	Ofgem
Tim Tutton	Oxera
Simon Hobday	Pinsent Masons
Natalie Davies	Pinsent Masons
Simon Bradbury	Poyry Consulting
Danny Clark	RPS Group Plc
Jerry Hauber	RWE
Dr Aidan Rhodes	SEDG
Deborah MacPherson	SPTL
Brian Galloway	SPTL
Aileen McLeod	SSE
Paul Hemsley	SSE
Chandra Trikha	SSE
Steve Gist	TUSC ltd
Rekha Patel	Welsh Power
Richard Mardon	Your-energy