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Dear Eileen

### **Transmission Access and Losses under NETA – Response to Consultation**

The EIUG opposes Ofgem's proposals for changes to the current arrangements.

As you are aware, EIUG is strongly critical of the effects of introducing capacity auctions in the gas market, where prices have risen as a result. We have the same concerns about their introduction in the electricity market. In any case, we are not aware of any evidence that transmission constraints are a major problem – so why the need to alter the current charging arrangements?

We also question the timing of these proposals. We believe it is premature to make further changes in the electricity market so soon after NETA has gone live and has yet to be fully sorted out (especially on the demand side). Ofgem should concentrate on sorting out the proven problems – the unfinished business – which the NETA reforms were intended to solve. It would be in everyone's interest, including Ofgem's, to resist embarking on more than one fundamental change at a time.

We interpret Ofgem's proposals as meaning the end of the Triad system, which would be bad news for all customers because of the implications for system security. By their very nature, Triads are relatively simple for industrial users to deal with and provide an incentive for managing peak demand, particularly in areas where demand tends to exceed generation. We therefore favour retaining the current Triad system.

Whatever the case may be for generation, we are sceptical that locational signals in NGC's charges would actually encourage demand to locate, or relocate, in a particular part of the country. Indeed, given the high prices faced by large users in the UK, it is unlikely that they would locate here at all if electricity costs were a critical element in their investment decisions. We therefore have grave reservations about what Ofgem is proposing for losses. Why is there a pressing need to address the issue of locational marginal losses? We believe that changing the current arrangements will certainly result in winners and losers, but with no tangible net gain for customers as a whole, set against risk of jeopardising system security and increased transaction costs.

Finally, Ofgem has failed to establish the cost-benefit case for its proposed reforms. We would not expect an efficient industry to make risky investments if they could not be shown to have passed such a test – why then is it acceptable for a regulator to make risky changes on so weak a premise?

Opposition to these proposals is widespread across the industry and, to our knowledge, none of the organisations representing industrial or commercial customers has commented favourably on them. Consumers are paying a heavy price for recent mistakes in the gas market, which have badly damaged Ofgem's reputation – it would therefore be well advised to avoid imposing similar unnecessary risks in the electricity market.