

Creating a single GB electricity market

A single wholesale electricity market for Great Britain is expected to go live on 1 April 2005. This will give a number of important benefits, particularly for Scottish consumers and for generators in Scotland.

Why is the creation of a GB-wide electricity market so important?

The limited scope for competition in the wholesale electricity market in Scotland means consumers face the risk of **higher prices** and lower standards, despite the abundance of generating capacity. The present arrangements in Scotland are not in the best interests of consumers as:

- the wholesale market relies on **administered prices**, pegged to the England and Wales market prices. They do not reflect market conditions in Scotland, nor the **excess generation capacity** there
- the current rules inhibit growth of **renewable generation** in Scotland because the local market is too small, and the market in England and Wales is expensive and complicated to access
- the structure of the market and the ways in which the market rules operate in Scotland create **barriers to entry**, and
- the present arrangements provide no straightforward access to the GB market for generation in Scotland, nor for generation in England and Wales to sell into Scotland.

A GB-wide electricity market is important as it will create a **competitive wholesale market** through a common set of trading rules, so that electricity can be traded across Great Britain. It will also introduce a common set of access rules for access to, and charging for, the transmission network.

What will happen to prices when the new market is implemented?

A GB-wide electricity market is all about promoting competition. Greater competition has proven effective in the past at delivering good value for customers. However here are elements of the new market that might be expected to produce downward pressure on prices in Scotland. In particular, the costs paid by suppliers in Scotland for using the transmission system are proposed by the National Grid Company (NGC) to fall by around £25m a year.

Will the lights stay on?

The three transmission licensees - SP Transmission, Scottish Hydro-Electric Transmission and National Grid Transco (NGT) - are responsible for the technical operation of the transmission system under the new market and are working together to produce robust processes for network operation. **Extensive testing and trialling** of these processes is being undertaken and monitored and shown to be working before the new GB-wide electricity market is implemented.

Security of supply is one of Ofgem's central obligations, one that it takes very seriously. Ofgem will not allow this to be compromised in any way.

What will a GB-wide electricity market mean for customers?

There will be no change to the way customers' electricity is supplied under the new market, just **greater competition** and choice, particularly in Scotland. The transition to a GB-wide electricity market will be **seamless** for customers. They will not have to change suppliers if they do not want to.

What will a GB-wide electricity market mean for the fuel poor?

More effective competition and choice under a GB-wide market will make an important contribution towards **reducing fuel poverty** across Great Britain.

How will a GB-wide electricity market affect renewable generators?

Overall, the creation of a GB-wide electricity market will benefit renewable generators in Scotland compared to the present arrangements. It will bring **access to a wider market** (i.e. Great Britain) and a level playing field for all generators. **Barriers to entry** will be reduced. This is particularly important for small, independent generators.

Will transmission charges rise?

The GB-wide electricity market is a **package of measures**, and although transmission charges for some may increase, for Scottish generators connection charges will be lower and interconnector charges will disappear. Financially, Scottish generators are anticipated to be broadly neutral overall.

The details of the charging arrangements will only be finalised when proposals being developed by NGC in consultation with the industry are submitted to Ofgem and approved. Ofgem did not approve proposals submitted to it by NGC in September 2004. Ofgem expect a revised set of proposals to be submitted by NGC before the end of January. Ofgem will make a decision on these revised proposals in February.

In the absence of a GB-wide electricity market, however, network charges in Scotland would be expected to increase substantially. Ofgem has agreed that around £500m of new investment in the network is needed to connect renewables in Scotland, and without the new market these costs would be recovered solely from network users in Scotland. Under a GB-wide electricity market these costs will be spread across users for the whole of Britain.

Is the introduction of a GB-wide electricity market preventing new renewable generators in Scotland from connecting to the transmission system now?

No. There is a shortage of capacity particularly in the Scottish transmission network. This problem would exist even if the new market did not happen

It has been known for some time that the transmission networks will need reinforcement to accommodate **significant additional generation capacity**, particularly in Scotland. The current situation now shows this problem is acute. This may affect how quickly new generators of all types can connect to the transmission system. There has been a substantial **increase in applications** for transmission capacity in Scotland in anticipation of a GB-wide electricity market, and the Transmission Companies are working hard to process these applications.

How will a GB-wide electricity market affect investment in the network infrastructure?

A GB-wide electricity market will enable the costs of **upgrading** the transmission network to be recovered on a GB-wide basis which will help ensure investment happens when necessary. The three transmission licensees - SP Transmission, Scottish Hydro-Electric Transmission and NGT - will continue to plan investment in the networks in their respective areas.

What will happen to the England-Scotland interconnector?

The England-Scotland interconnector is one of the **barriers to efficient trade**. Access to the England-Scotland interconnector is controlled through a number of **contractual agreements**, which are subject to **regulatory oversight**. Generators in Scotland can only gain access to the England and Wales market by first acquiring a share of the capacity of the interconnector and by paying the required charges to the interconnector owners.

By treating the interconnector as part of the wider transmission system, the issue of gaining access to it, to enable trade between Scotland and the rest of Great Britain, disappears, as do the separate charges.

Is the treatment of Scottish companies under a GB-wide electricity market fair?

Yes. A GB-wide electricity market will create a single GB-wide system operator (GBSO), independent of generation and supply. This is seen as fundamental to ensuring that the new market promotes a single competitive wholesale electricity trading market.

Will the NGC, as GBSO, be able to disadvantage SP Transmission and Scottish Hydro-Electric Transmission?

NGC's licence will contain provisions to prohibit discrimination against the other licensees.

For further information please contact:

Mark Stockwell

Parliamentary Officer

020 7901 7484

email mark.stockwell@ofgem.gov.uk