

British electricity transmission networks - future charging

Ofgem's role is to protect customers by regulating the high voltage electricity transmission network so that it is safe, efficient and secure. Our role is also to make sure the costs of the network are spread fairly between the customers, generators and suppliers who use it.

A transmission charging regime for the new British electricity market

With the creation of a British-wide electricity market from April 2005, a new charging regime for access to, and use of, the GB transmission system needs to be set up.

National Grid Company (NGC) who will operate and run the new GB-wide transmission network has to develop a new methodology for charging. This had to be approved by the Ofgem Authority.

For Ofgem's Authority to approve it, it had to be satisfied that it met a number of legal requirements.

The new charges must:

- 1) comply with the Authority's statutory duties and other legal requirements, and
- 2) meet the principles set out in the new licences granted by the Secretary of State for Trade and Industry to NGC, to operate the new GB system.

These requirements set the only parameters against which any new methodology must be judged and approved.

What has been approved?

Ofgem has approved, with conditions, NGC's new charging methodology for use of the GB transmission system, when the new market goes live in April.

The conditions require NGC to review some areas of the charging regime over its first two years of operation and propose refinements where necessary.

The new transmission charges reflect the costs imposed by generators on the transmission network. Generators, who are located far away from the main centres of

demand for electricity, will pay higher transmission charges as their output has to be transported long distances to reach their customers.

This gives a clear signal to generators, especially to new gas fired plants, to site in the most cost-effective location, which reduces costs to customers. This also reduces the amount of electricity lost as heat as it is transported across wires, which costs around £174 million a year.

What is the impact of this new charging regime?

The GB transmission system costs around £1.7 billion a year to run. This cost has to be met by generators, suppliers and customers, who use the system.

For customers

Transmission charges account on average for 3 per cent of a domestic customer's bill, ranging from 0 per cent in Scotland to 7 per cent in the South West of England.

Transmission charges account for 5-10 per cent of electricity bills for business customers. Larger customers can reduce their transmission charges by cutting their demand during peak periods.

Under the new arrangements:

- The costs of supplying customers in Scotland will go down. Scottish Hydro are already offering lower prices to customers in Northern Scotland reflecting these lower transmission charges.
- The impact of the new arrangements in England and Wales will vary, with London largely unaffected by the new charges and the South West, the area most affected by the change, seeing a one per cent increase in the cost of supplying a customer.
- The costs of transmission will be more fairly distributed across customers in England, Wales and Scotland than they are at present.

For example - the £450 million investment in the transmission network in Scotland needed to bring new renewable generation to the GB-wide market will be shared across all customers in Britain.

For generators

Under the new arrangements all generators will have access to the same, GB-wide market. This will stimulate competition across Britain's wholesale electricity market.

While similar transmission charging arrangements have been in place in England and Wales, this is the first time they will be applied to Scotland.

Benefits for Scottish generators include:

- easy access to a larger market in England and Wales. This is vital in Scotland where there is already surplus capacity, with plans to more than double the amount of generation.

For example - A new wind generator on the Isle of Skye would pay £38 per kilowatt under the old arrangements to access the network and sell its power into England and Wales. The charge under the new arrangements will be around £23 per kilowatt.

- The overall effect of the new charging regime is broadly neutral for Scottish generation as a whole.
- Charges will be highest in remote parts of northern Scotland, but windfarms will still be viable given the support they enjoy from the Government's Renewables Obligation.

For example - The highest charge under the new regime will be around £9 per megawatt hour of electricity generated from a windfarm. At current prices, renewable generators would receive about £70-80 per MWh for the electricity - this consists of about £40-50 per MWh from the Renewables Obligation mechanism and about £30 per MWh for the electricity from the market.

For further information please contact:

Richard Hunt
Mark Wiltsher

020 7901 7158
020 7901 7006

email richard.hunt@ofgem.gov.uk
email mark.wiltsher@ofgem.gov.uk