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Dear Matthew,

Response to the Pre-Consultation Document GB ECM - 11
Charging Arrangements for Generator Local Assets

Thank you for the opportunity to respond to this Pre-Consultation Document. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

The present charging methodology does not incentivise a user to apply for the most economically efficient connection solution. A connection to a standard lower than GB SQSS bears a greater risk of interruption and increased cost that should be reflected in reduced TNUoS charges.

In particular, provision of a design variation discount will be crucial to the achievement of the government's renewable generation targets. Renewable generation has to locate where its resource is greatest and this is often in areas where an SQSS compliant connection is not possible (particularly with respect to consent approval) or is not the most economically efficient option.

We support the adoption of a methodology that can be readily adopted for Offshore transmission users and for users seeking connection to the GB Transmission System in advance of completion of wider reinforcement works.

The methodology adopted must be simple and able to be replicated by generators in order to provide the correct economic signals on the location and type of connection. We do not believe that any of the proposals outlined provide a solution which reflects the significantly increased risk of loss of connection from a single circuit connection. We would suggest that a simple discount reflecting the annuitised capital cost savings would be more appropriate. The issue of a perceived perverse incentive could be addressed through applying the discount only to those works deemed to be economically and efficiently required to provide the generation connection.

Change to the Connection Asset / Use of System boundary

We do not believe that a change to the Connection Asset / Use of System boundary would be an efficient solution to the issue as it would remove many of the advantages of the PLUGS methodology. In particular, a methodology would be required to deal with the issue of apportionment of shared connection assets and the treatment of subsequent connections.

Specific Treatment for Generation Assets

Identification of the assets used solely for generation connection presents many of the same issues as deepening the Use of System / Connection Charging boundary including lack of transparency in the methodology and the introduction of uncertainty to users from potential subsequent connections. The additional level of complexity introduced into the charging model by specific treatment would make Use of System charges less predictable by users particularly if the marginal investment for generation methodology was adopted as it is unlikely that this methodology could be replicated by users. Such lack of transparency would make it harder for developers to respond to economic signals and act as a disincentive to invest in new generation.

Specific Treatment of Distance to Local Hub

Once again this proposal introduces a significant additional level of complexity to the charging model and makes the resultant charges less transparent and predictable and would potentially act as a disincentive to invest in new generation.

Local Expansion Factors and Local Security Factors

The major concern with the introduction of Local Expansion Factors is the size of the sample being used to set the expansion factors. Zonal or TO specific factors may not be drawn from a large enough sample size to be truly representative of actual costs in the majority of circumstances. The more specific the factor becomes e.g. type of 132kV construction (wood pole vs. steel tower), the smaller the sample size will become and a single project may unduly influence the final expansion factor values.

We would not support the use of the SECULF model for determining Local Security Factors. Once again this would introduce additional complexity, remove transparency and make it impossible for generators to replicate Use of System Charges.

Local Charges for Substation Assets

We believe that a substation discount should be available to reflect the cost savings associated with single circuit connection but we do not support the introduction of a substation charge within a generation local asset charge. Introduction of a substation charge would be contrary to the PLUGS methodology and result in a significantly different charging basis for demand and generation. Calculation of substation charges on a zonal or regional basis would be subject to the same issues of sample size and misrepresentation of actual costs.

Alternative Proposal

In order to make the significantly increased risk of loss of connection due to single circuit connection attractive to developers, the discount available is required to be significant. Loss of connection via a single circuit does not only lose connection to that circuit but to the wider GB Transmission System. Therefore a discount which only relates to the final section of the overall generation connection cannot reflect the overall risk.

ScottishPower believes that the simple methodology of annuitising the capital cost savings resulting from a single circuit connection (including substation assets) over the life of the connection would provide a discount which is fully reflective of the savings resulting from that generator's decision to elect for a non standard connection.

The issue of perceived "perverse incentives" could be addressed by ensuring that the resultant discount was only applicable to that length of connection which met the test of providing an economic and efficient connection. Thus there would be no incentive on the generator to request a connection which went beyond an economic and efficient design.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

James Anderson
Commercial and Regulation