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13 October 2006

Dear Craig,

**The application of the TNUoS charging methodology for determining generation charging zones for the price control period 2007/08**

Centrica welcomes the opportunity to provide comments to National Grid's consultation on generation charging zones.

We are pleased that National Grid is reviewing the generation charging zones in light of stability and robustness. We strongly believe that stability and predictability of generation TNUoS charges as well as the charging methodology is key to facilitating effective competition.

The National Grid document states that the consultation does not propose to modify the TNUoS charging methodology, but is about application of the methodology. However, we question whether it would in fact be possible to use the forward looking data contained in the Condition 5 information paper without changing the charging methodology, regardless of whether it would improve the stability and predictability of the generation TNUoS charges.

The Statement of the Use of System Charging Methodology ("Methodology Statement") lists three criteria that are used to determine the zonal boundaries (section 2.17). In addition, sections 2.19-2.21 state that the least number of zones are used with minimal change from previously established zonal boundaries and that zones will typically not be reviewed more frequently than once every price control period unless in exceptional circumstances. In our view these requirements amount to criteria and are therefore an integral part of the charging methodology.

Increasing the existing number of zones (for example, up to 30 as suggested in the consultation document) by taking into account forward looking data does not seem to be in line with the criteria of the least number of zones with minimal changes from previously established zones.

In addition, we doubt whether the zoning issues mentioned in the Condition 5 information paper (i.e. (de)commissioning of generation) would all qualify as “exceptional circumstances” and would therefore justify re-zoning. According to the Methodology Statement, re-zoning should only take place if system developments would result in non-cost reflective generation tariffs for the remainder of the price control period and not just when the section 2.17 criteria are not met, as suggested in the consultation document.

Finally, we are concerned about the reliability of the forward looking data, in particular data of later years, and the impact it could have on the stability of generation TNUoS tariffs and generation zones.

Considering the above, we believe that a review of the charging methodology should be carried out to ensure stable and predictable generation TNUoS tariffs and generation zones going forward. Moreover, since the introduction of these criteria the transmission system has evolved and a different set of criteria may now be warranted, including a change to the +/- £1/kW criterion. We would welcome further analysis by National Grid in these areas.

If you have any questions regarding these comments, please do not hesitate to contact me.

Yours sincerely,

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Commercial Manager  
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