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Dear Alex

**MODIFICATION PROPOSAL CCM-M-07, IMPLEMENTATION OF PLUGS**

ScottishPower welcomes the opportunity to provide comment on NGC's Modification Proposal CCM-M-07 for the implementation of the Plugs charging model, involving a change to the connection boundary, the associated removal of land charges and Type B termination charges, and a change to the calculation of site-specific maintenance charges. This response is submitted on behalf of ScottishPower UK Division which includes the UK energy businesses of ScottishPower, namely ScottishPower Generation Ltd, ScottishPower Energy Management Ltd and ScottishPower Energy Retail Ltd. We have, as you will be aware, been following the progress of the charging review with interest and have submitted our views on several occasions. For completeness, I will re-state some of our previous comments in this response.

**General comments**

ScottishPower continues to be concerned that such a fundamental review of charging methodologies has been undertaken in England and Wales such a short time ahead of the introduction of BETTA. Our concerns are twofold; either that the work will be set aside and wasted when the charging methodologies for BETTA are established or, alternatively, that inappropriate England and Wales methodologies will be extended to GB in order to avoid repeating the review process. The recent consultation paper on transmission charging under BETTA makes clear that NGC, as GBSO designate, are soon to be given the responsibility of developing the GB charging methodologies. In the light of this development in NGC's transmission business we believe that grounds now exist for the current England and Wales review to be abandoned, the charging modification proposals to be withdrawn, and efforts to be concentrated on developing appropriate charging methodologies for GB.

However, should you decide to proceed with the modifications, we are submitting comments which should be read entirely in the context of England and Wales charging. Given our previously stated opposition to zonal transmission charging, both in England and Wales and for BETTA, these comments should not be taken to imply any acceptance of the underlying methodology.

**Process issues**

ScottishPower still has major concerns about the process which is being followed in respect of the three charging modification proposals which have been put forward. We do not believe that the

modifications have been given sufficient consideration by NGC, either individually or in combination, such that the proposals contain elements which have not been discussed within the charging review. The overall effects on users have not been fully explored, nor has sufficient information been made available to users to make their own assessment of the impact of the changes (for example, the treatment of connection charges for users with a firm price agreement or who have made capital contributions has not been addressed, nor has information regarding the impact of the proposed changes been made available to the interconnector asset owner who provides access to the NGC network for ScottishPower Generation Limited). The alleged benefits from more stable connection charges are likely to be more than outweighed by the potential volatility of TNUoS charges, especially as it appears that the charging zone boundaries can now be changed each year (one of the changes which has not been discussed during the review). No impact assessment has been offered in support of the changes.

The impression given is one of excessive haste to meet a spurious deadline of implementation in 2004 when some of the changes are clearly so fundamental that they would be better implemented at the time of the price control. There is also a clear risk that any revised charges will not be available to DNOs in time to inform their tariff setting process; thus the uncertainty created by the charging review will affect users of their networks as well as users of your own. This is not conducive to competition.

#### **CCM-M-07**

We remain concerned that the proposed Plugs connection boundary removes the local incentive to minimise connection costs and will lead to cross-subsidisation between users. We do not believe that this will facilitate effective competition in the generation and supply of electricity.

We note that the change is justified on the basis that it will remove the dependence of each user's overall charge on the commercial decisions of another, potentially competing, party. We fully support this laudable intention and look forward to the TNUoS charging methodology being changed to reflect the same principle. Until then, however, we remain concerned that the increased TNUoS revenue requirement, absent any change to the current TNUoS methodology, will not provide an equitable allocation of infrastructure costs between users and will neither facilitate effective competition in the generation and supply of electricity nor result in charges which reflect the costs incurred by National Grid. It is for this reason that we have argued that the change to Plugs, if it were to be made, should be linked in a single modification proposal to a complementary change to the treatment of substation costs within the TNUoS methodology.

Overall, ScottishPower believes that the abrupt change in tariffs triggered by the re-classification of substation assets from connection to infrastructure and the changes to the TNUoS charging methodology will undermine confidence in the stability of transmission charges and hence does not facilitate competition on the generation and supply of electricity. Changes of this magnitude, if justified, should be subject to more analysis, be implemented with more notice and over a longer period, and should probably be implemented at the start of a price control period.

Yours sincerely

**Mike Harrison**

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