

Nick Pittarello
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

7th January 2010

By email

Dear Nick,

RE: National Grid's open letter on proposals to restructure application fees

Thank you for the opportunity to comment on this open letter seeking industry views on proposals to restructure application fees for Connection and Use of System Agreements.

Centrica welcomes efforts that aim to simplify and make more transparent the application fees for transmission connections. However, whilst we agree that these proposals would lead to a certain simplification of fees, we do not believe that they would improve transparency and we believe that it could lead to a reduction in cost reflectivity.

On proposal 1, whilst we believe that removing the boundaries of influence and replacing them with a core fee and a fee per TO involved could increase the simplicity of tariffs, we believe that this may be at the expense of cost reflectivity. Adopting a uniform rate per TO, rather than differing rates as is currently the case, would be a sub-optimal way of simplifying fees.

National Grid's proposal to reduce the number of category sizes from five to three is based on a numerical distribution of applications. However, such a categorisation appears to be arbitrary and not based on cost reflectivity. Whilst it is explained that there is a relationship between connection size and the degree of work required, these costs do not appear to be linear and according to National Grid the biggest cost driver is the second transmission line required by plants that are over 1320MW. Hence, if the number of categories were to be reduced, it would seem more logical to merge the 300MW and 300-1320MW categories whilst retaining the >1320 category.

We would also question whether the relatively small sample of applications taken (January 2008 to September 2008) is sufficient to provide a representative distribution and would welcome further analysis in this area.

The proposals look to ensure that cost reflectivity is maintained through the introduction of a £/MW rate. However, from the linear graphs it is not possible to understand how the rate was calculated. Furthermore, given that National Grid states that the relationship between the size of the connection and the costs incurred are not linear (i.e. costs increase substantially for >1320MW generators), the introduction of a £/MW fee does not appear wholly appropriate.

We are also surprised by the proposals to no longer distinguish between new applications and modifications. As National Grid has stated, new applications incur higher costs than modifications and whilst applying the same fees for both would increase simplicity, we believe that the benefits of this would be outweighed by loss of cost reflectivity.

With regard to National Grid's proposals to charge a premium rate for fixed fees, whilst we have our reservations about this proposal, we believe that if it were to be introduced different levels of premium should be applied according to the type of application. For example, as a new application carries more risk than a modification application, this should be reflected in the premiums applied.

We would also like to make a number of comments regarding the treatment of applications for offshore connections. We would like clarity on why there should be an OFTO charge because the OFTO may already have made a provision for this. Furthermore, if there is to be a cost, there is no reason why this should be the same as for the other TOs. The structure of an OFTO's business is very different from that of the other TOs in that it offers an exclusive service to one client and as such it is likely that different costs will be incurred. With regard to the reconciliation of fees for offshore connections, we do not fully understand the difference between options 2 and 3. However, we believe these would be the preferable outcome as compared to option 1 they would avoid a potentially long delay before reconciliation of fees.

We would also like further clarification as to how the £400k cap applies to offshore wind farms. Our understanding is that the £400k cap is the total fee that would apply to an offshore project, notwithstanding the number of onshore connection points. However, this is not clear from the document as paragraph 32 states "an application fee applies per onshore connection point." As such we would welcome further clarification in this area.

I hope these comments have been useful. If you have any questions please do not hesitate to contact me or my colleague Ricky Hill on (Tel. 07789 579169).

Yours sincerely,

Andrew Margan
Commercial Manager
Tel. 07789 577327

From: Paddy Larkin [paddy.larkin@mutual-energy.com]
Sent: 25 November 2009 17:07
To: Pittarello, Nick
Subject: RE: Open Letter to Industry - Application Fees
Nick

We feel the proposals in general are fair.

We think that including a premium on the fixed price only complicates the schedules of prices. We feel it should be left out and the fixed elements reassessed annually to compensate for any persistent under recovery.

We believe that it is unfair to charge the application fee based on the total TEC. We think that the additional TEC applied for should be used for categorisation. For example changing TEC from 400MW to 420MW should not cost the same as a new application for 420MW. However if a time and materials alternative to the fixed fee is available then this helps to an extent.

Regards
Paddy

Paddy Larkin
Moyle Interconnector MD

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From: Pittarello, Nick [mailto:nick.pittarello@uk.ngrid.com]
Sent: 16 November 2009 17:59
To: Pittarello, Nick
Subject: Open Letter to Industry - Application Fees

Dear Industry Colleagues,

Please find attached an open letter regarding Application Fees.

<<Application Fee Restructure Open Letter_Final_161109.pdf>>

Best Regards,

Nick Pittarello

Charging Manager

Transmission Commercial

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<http://www.nationalgrid.com/corporate/legal/registeredoffices.htm>

From: David Walker [david.walker@westcoastenergy.co.uk]
Sent: 11 December 2009 14:12
To: Pittarello, Nick
Cc: Charles Williams; Michael Tough; Rob Tate
Subject: Open letter on Application Fees.

Nick.

OPEN LETTER ON APPLICATION FEES

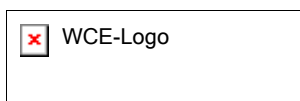
West Coast Energy Ltd welcomes the opportunity to comment on the consultation on National Grid Consultations on Application Fees. West Coast Energy have acted as developers and consultants to a number of major windfarm projects throughout Great Britain and have obtained consent for over 500MW of projects with a further 1000MW either going through planning or with a planning application being prepared. Although the majority of our experience to date has been with distribution system connected projects we have had experience of transmission connection offers in England& Wales (400kV) and also in Scotland (132 & 275kV). We have also been active participants in various electricity industry fora involving National Grid, and OFGEM.

We are in agreement with your comments with regard to the clarity of the current Schedule 2 of ' The Statement of Use of System Charges' In terms of your proposals to restructure application fees we are broadly supportive of the approach you outline. We have often expressed our concerns regarding the very high application fees for connection or modification particularly in Scotland; where fees of £61,000 (+VAT) for projects of less than 100MW in the North of Scotland appear inordinately expensive. It is difficult for outsiders to judge the amount of work involved in preparing a connection offer and hence how 'risky' a choice of indicative rather than fixed offer pricing option would be. An upfront broad brush indication of applications costs would be very useful especially for the smaller scale projects e.g. a 50 MW windfarm in Scotland.

I hope you find our comments of interest but if you would like to discuss them further please do not hesitate to contact me.

Kind Regards

David



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Mr Nick Pittarello
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04 January 2010

Dear Nick,

NGET application fees consultation – ESBI response

ESB International (ESBI) welcomes the opportunity to respond to National Grid Electricity Transmission's (NGET) consultation on its proposals to change the application fee structure for parties wishing to connect to the GB transmission system. As a developer of both thermal and renewable generation, NGET application and modification application fees are a significant consideration in our business activity.

ESB International

ESB International (ESBI) has been a developer of independent generation projects in the GB market for over fifteen years. We currently have interests in the 350MW Corby power station, in the 850MW development at Marchwood, which has recently commissioned. We have also recently announced our latest 860MW development at Carrington and 960MW Centrum development in Burton upon Trent, which are currently planned to commence operation in 2013 and 2016 respectively. We also have a number of live modification applications to transmission agreements relating to large Combined Cycle Gas Turbine (CCGT) developments at various locations across GB. These are set within a context of ESBI's intention to build 3GW of thermal generation in Great Britain in the next decade.

In addition to expanding our conventional generation portfolio, we are also seeking to expand our GB portfolio of renewable generation sites, having recently announced the acquisitions of Fullbrook Down and West Durham wind farms. All these developments are set within the context of a €22billion package announced by the ESB group to facilitate the transition to a low carbon economy.

ESBI views on NGET's proposals

One of the main drivers for NGET proposing to change the current fee structure is a belief that it is complicated and difficult for parties to use. NGET aims to improve fee clarity by significantly reducing the number, and type of, fees that would be applied. Although there are currently a large number of different fees, we are of the view that the current structure is not overly complex and rightly reflects the varied types of applications that are made by users. If this is to be used as a primary driver for change, we would seek for NGET to provide additional evidence to support the assertion that complexity in the structure is confusing for users.



Notwithstanding, we agree that the large number of fee categories is driven primarily by the large number of zones and the five capacity groups currently used to determine each fee. Further, we agree that fewer zones, applied to the existing fee categories, would make the fee structure simpler and that an approach based on the existing boundaries of influence is sensible.

We also support NGET's proposal to reduce the number of capacity groupings to the three contained in the open letter and welcome the analysis provided to support the proposal. The types and sizes of generation applying for new connections and modifying existing offers would appear to fall appropriately within the proposed groups. We would suggest, however, that there may be applications for very large scale generation projects in the future (new nuclear and large-scale offshore wind, for example) which may warrant an additional upper group in order that the balance between complexity and cost-reflectivity may be maintained.

There are, however, aspects of NGET's proposed changes about which we have concerns. Firstly we do not currently agree that there should be a single application fee encompassing new applications and modification applications (modapps). A single fee implies that the amount of work done to process modapps is the same as that done to process new applications. We would challenge this and are of the view that, in many cases, there is less work needed to process a modapp than new applications and as such, the fee should not be the same. We would therefore like to see additional quantitative analysis showing the costs that NGET incur in considering modapps relative to new applications, before being satisfied that the two fees should be the same.

Linked to the above point, NGET recognised that costs for new applications and modapps are not the same (para 28). This assumption forms the basis for its proposal to introduce a risk premium for those parties wishing to fix their application fees. It is stated that a risk premium is required to mitigate the cost differences between the processing of the different types of applications, relative to the line of best fit calculated by the regression analysis. We are of the view that if the different services were to be covered by their own fees then there would be less need to include a risk premium.

A key driver for NGET proposing to modify the application fee structure is cost-reflectivity. We are therefore unsure as to why NGET has only proposed changes to the application fees for directly connected generation. We note that there is no mention of changing fees for embedded generation or supply points. If NGET is to change the basis upon which fees are calculated we are of the view that all parties should be subject to the same approach. Indeed, it may be discriminatory to apply different fee calculations to different users without due reason. We would therefore welcome clarity on why NGET has chosen to adopt this approach and information on the costs associated with applications from embedded generators and supply points.

Other application fee issues not addressed in the open letter

The open letter deals only with fees for those parties wishing to fix their fees and not with the fees applied to those parties wishing to see variable, reconciled fees. If undertaking a review of application fees, we would urge NGET to also look at the transparency of the process for setting those variable charges. Currently, there is a great degree of uncertainty as to how these are calculated and how any staged payment profile is developed. In order that developers of new generation are able to make economic and efficient decisions as to the application fee that best suits individual projects, greater clarity on NGET's calculation and processes is needed.

In summary

ESBI welcomes NGET's efforts to simplify the current application fee structure for transmission connections. We agree that this could be achieved by modifying the generation capacity groups and using the existing boundaries of influence rather than the current TO-based areas. Introducing these changes would reduce the size of the fee tables and improve ease of use. We have concerns, however, over the proposed method of calculating the specific fees. In particular we would seek for NGET to differentiate between the costs associated with new applications and modapps and that these be applied separately. Additionally, we would



welcome further clarity on why NGET has chosen not to consider changing the application fees for embedded generation and supply points.

Please do not hesitate to contact me should you wish to discuss any of the points raised in this response.

Yours sincerely,

Michael Dodd
GB Regulation Manager

By e-mail





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Paul Jones
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4 January, 2010

Dear Nick,

Re: Open letter seeking industry views on proposals to restructure application fees

Thank you for the opportunity to respond on this issue. E.ON UK does not presently support the proposals in the paper, which currently do not seem justified on the basis of the analysis and reasoning presented. Our detailed responses to the questions posed in the letter are as follows:

Question 1: Do you believe the existing application fee tables could be clearer?

Yes, although this is more down to the interaction of the tables with the boundary of influence map. The description of how exactly each of the zones relates to the boundaries of influence is not immediately obvious. A map such as the one included in the letter which explicitly shows which rates apply where, would be clearer.

Question 2: Do you agree that replacing zones with an application fee increment per TO involvement based on the boundaries of influence map would aid clarity by significantly reducing the number of application fees?

This reduces the numbers of rates to apply although we would question the cost reflectivity either of the existing fee structure or the new one. Please see our more detailed reasoning in our answer to question 6.

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Question 3: Do you have any other ideas to simplify or reduce the number of application fees?

We are unable to provide comment without understanding the cost elements more and how they are driven by different factors.

Question 4: Do you agree with the reduction in the number of capacity threshold bands?

Question 5: Do you agree dividing application fees into an overhead and a £/MW rate is sensible to maintain cost reflectivity?

We have answered these questions together as our observations cover both of them. The purpose of the banding appears to be simply to set appropriate rates to use in the proposed two part charging structure. Presumably, historically the bands have been set to group together sizes of applications with similar processing costs. When the charges change with size then the purpose of banding can only be to ensure that suitably cost reflective rates are being used.

On this basis we disagree with the process under which the first breakpoint at 300MW was derived. The rationale for this in the letter is that this represents half of the applications received between January and September 2008. However, this is not really a relevant consideration. The purpose of the banding is to relate to cost structures not the numbers of applications.

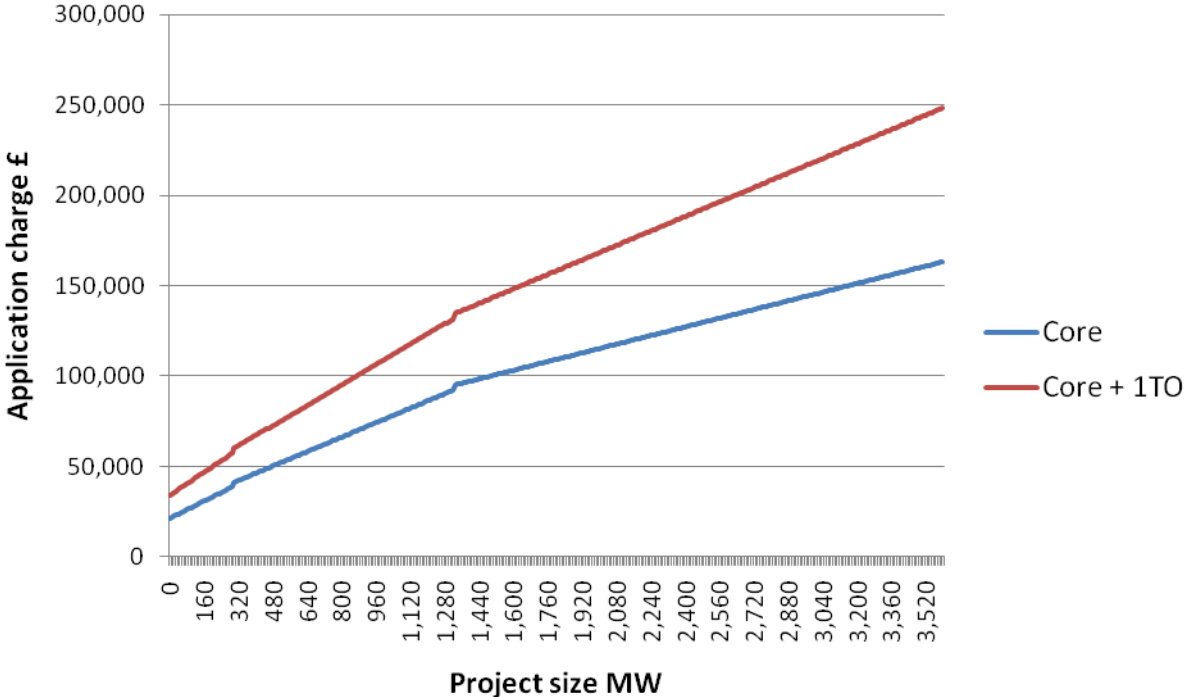


Figure 1: Application charge versus project size for proposed rates

Unfortunately, there is no evidence provided as to the cost structure of applications

relating to size, only the charging rates that National Grid has devised. There is also no information on how good a fit these linear relationships are such as details of the R^2 associated with the analysis. However, we have looked at the rates that have been derived. These are plotted in the graph in figure 1.

Figure 1 shows that there isn't very much difference between the rates up to 300MW and those between 300MW and 1320MW. Therefore, the appropriateness of setting a band here seems to be questionable. Clearly, this is assessed against the outputs of the regression and not the inputs, but there is little point in setting bands with negligible differences between them. The 1320MW rates appear to be sufficiently different to justify a different charging band. However, again we cannot judge whether this is based on sound analysis of differences in cost.

Our qualitative view is that we do not see how generator size would necessarily drive the size of costs in a linear manner. A number of cost drivers are mentioned in paragraph 7 of the letter. Our comments on each of these are as follows:

- Discussions with customers – these costs should be fixed (ie independent of size).
- Validation of connection data – this should vary with the number of generation units and with different generation technologies. Therefore, a CCGT Module with both steam and gas turbines would be more complicated than a single unit of comparable size (and arguably more complicated than a Power Park Module with multiples of the same Power Park Unit). However, we wouldn't expect the cost to vary with size alone (ie one generator requires the same amount of data to be validated regardless of its MW output).
- Power System analysis – again, we would expect the variance to be caused by the number of generating units and connection points, not the size.
- Options – as a customer, we don't see these as a final outcome, but it is hard to envisage that there are more options with increasing size (if anything, the options could be more limited in these circumstances – e.g. the connection voltage). Therefore, again the correlation between size and cost is not obvious.
- Financial considerations and governance processes – without more detail it is not possible to comment on this category of cost and on how it varies with size.
- Offer construction through legal/contractual framework – no obvious size correlation. There may be differing costs if there is no Construction Agreement?

Question 6: Do you have any other suggestions on maintaining cost reflectivity of application fees if wider capacity threshold bands are used?

Although we cannot comment on the cost reflectivity of the rates derived for this proposal, we can compare them with the rates that exist at present. This is shown in figures 2 and 3 below.

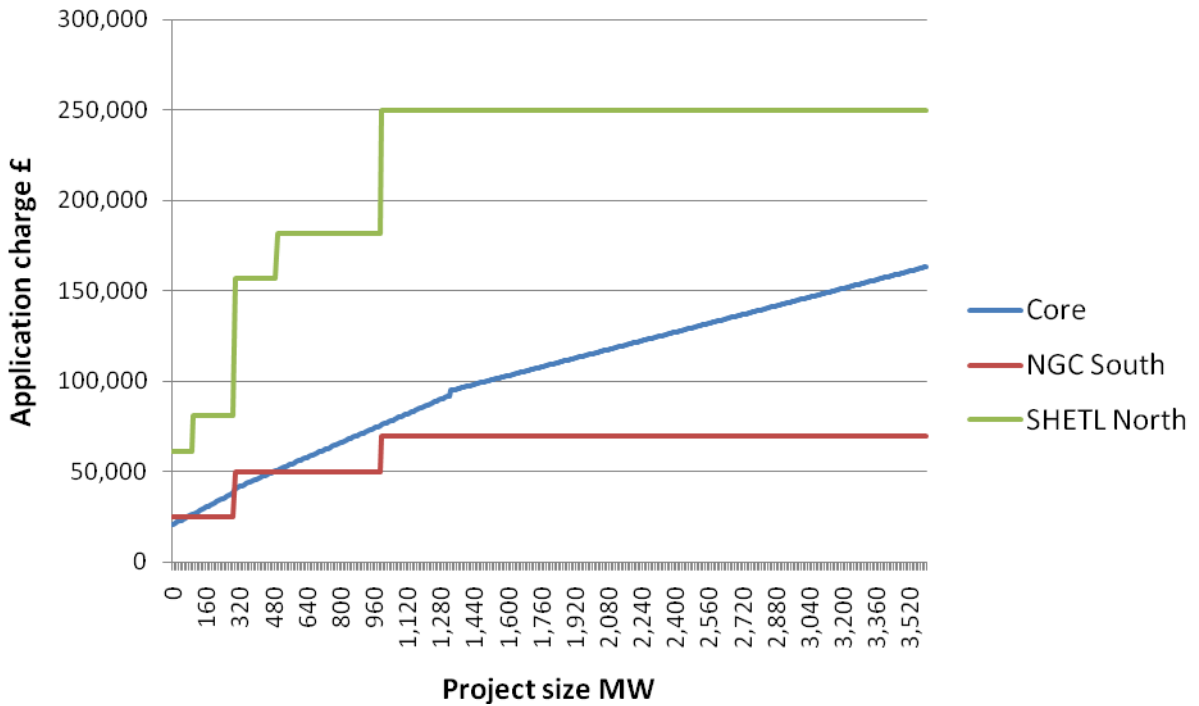


Figure 2: Comparison of proposed and existing charges in areas covered by core charge only

Under this proposal only the Core charge would be applied in the present NGT South and SHETL North zones. Figure 2 compares the current charges for these zones with the proposed Core charges for different scheme sizes.

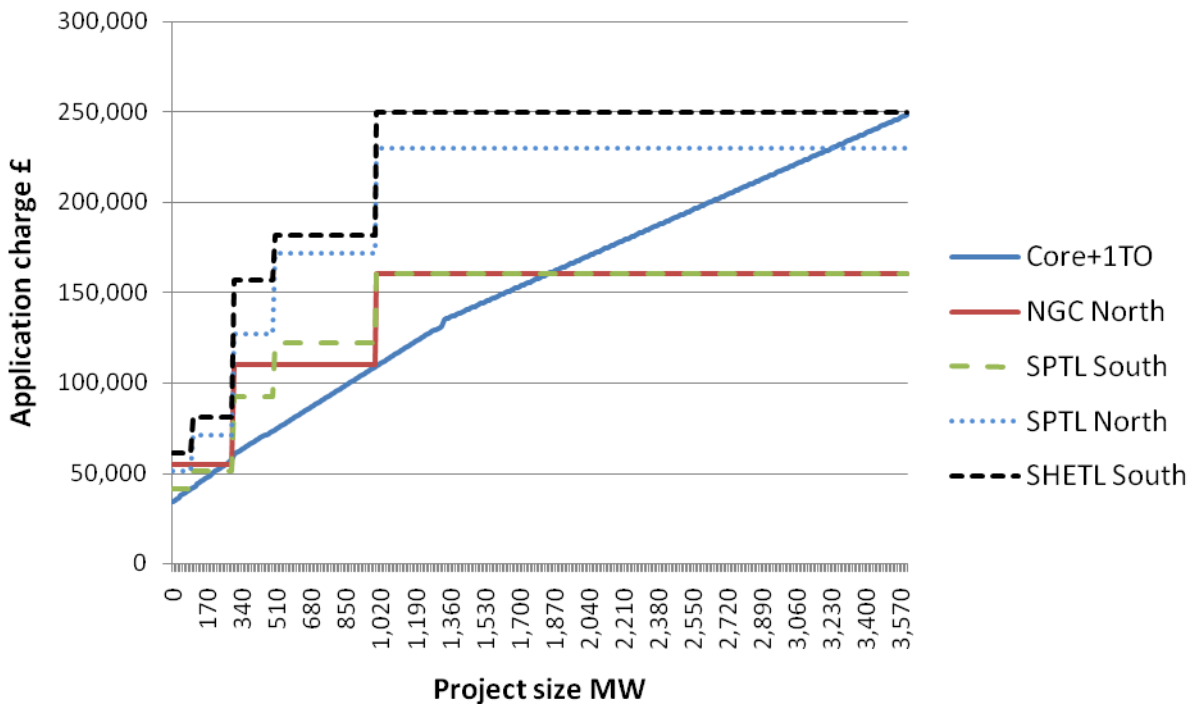


Figure 3: Comparison of proposed and existing charges in areas covered by Core + 1TO charge

Figure 2 shows a significant difference between new and old rates. In particular the charges for North SHETL have been pulled down dramatically. Again we do not know the underlying data, but this magnitude of change would suggest that one of the charging structures is not cost reflective, unless SHETL has reduced the charges it makes for processing its part of these applications.

Figure 3 shows the same analysis for those zones that would be covered by the Core+1 TO charging structure. Again the new structure very much pulls down the charges for SHETL South and SPTL North zones. Therefore, for these zones, including SHETL North, the new regime does not seem to represent a re-profiling of existing costs but a wholesale reduction in the rates that apply.

We would therefore ask National Grid to confirm that these rates are correct, and whether they are indeed cost reflective.

Question 7: Do you agree there should be an explicit cap on application fees?

Again, without knowing exactly how application processing costs are driven by size of project, it is hard for us to comment on the appropriateness of a cap.

Question 8: Do you consider a premium should apply to fixed price application fees?

We are uncertain as to how the risk associated with fixed fees affects National Grid. We had assumed that it was other Users that were affected by any errors in their calculation (ie the TOs always receive the same revenue). However, if this is not the case any further clarity on how the risk is apportioned would be helpful.

Additionally, we are uncertain about the limited rationale provided for a premium. One example given is that modifications generally cost less than new connections to process. If this is indeed the case then we would question the appropriateness of a single charge structure to cover both. A comparison is also made between premiums for fixed price energy contracts which seems to imply that this situation is comparable. We do not believe that the risks associated with trading in volatile energy markets are indeed comparable to those connected with the assessment of access applications. However, if more information is available about the risk profiles of fixed price applications, we may be able to make a more informed assessment.

Question 9: Do you agree that offshore application fees should be on an indicative basis only until more certainty on actual costs is available?

We are unclear as to why this should be the case. Presumably this element of the charges only reflects the onshore element of the offshore connection process as the offshore costs are picked up in the tender process. Therefore, we are uncertain why significantly higher onshore costs should be driven by this process except that it is carried out in two stages.

Question 10: Do you agree that an application fee should be paid on a per onshore connection point basis?

Again, if this is reflecting the onshore application processing costs then the number of connection points onshore would seem a sensible charging basis. This would appear to be equally applicable to all onshore connections.

Question 11: Do you agree with the approach to using the “additional TO fee” as a means of calculating the appropriate application fee for offshore generators?

If the costs of the offshore TO are recovered through the tender process, then it is not clear why an additional TO fee is necessary.

Question 12: Which of the three options would you prefer for the treatment of the two-stage offshore offer process, or can you suggest other alternatives?

Option 3 would seem to be consistent with the approach proposed for DNO costs associated with Embedded Transmission designs and is probably the most appropriate.

Question 13: Do you have any other thoughts or observations with respect to the Offshore regime and application fees?

The only comment that we do have is that the analysis needs to be clearer as to how increased onshore application costs are incurred (as opposed to the costs of the OFTO itself which are recovered as part of the tender process).

Question 14: Is the proposed Application Fee table design an improvement over the existing structure?

The fee table design seems less complex so from that perspective it seems an improvement. However, we still are concerned about the cost reflectivity of the charges. We also are unsure why different percentage premiums should apply for fixed price fees based on application size. Equally, given that NGET has identified a difference between the costs of processing applications for new connections and those for modifications, it is unclear why they are proposed to be charged at the same rates.

Question 15: Are there other examples that would benefit from clarification?

Yes, the example of a multipoint connection from offshore or onshore would be helpful and would presumably be different from single point equivalent of the same size by the application of additional overhead charges.

Yours sincerely

Paul Jones
Trading Arrangements

To: nick.pitarello@uk.ngrid.com



4 January 2010

Dear Nick,

National Grid open letter seeking industry views on proposals to restructure application fees

Key Points

- Developers would generally prefer to know the fees required for any particular application up front and this feature of the existing scheme should be retained
- National Grid (NG) must recover the costs of processing the current fixed fee applications otherwise the fees structure would be different
- The current fees structure may seem a little complicated to new entrants but NG has customer account managers to provide advice
- Notwithstanding the above there may be a need to introduce some simplification and an interim fee structure for offshore applications until these costs are understood

Detailed Response

EDF Energy supports the existing fees structure which is based on fixed fees ranged according to purpose, location and transmission capacity requested. There is an option for applicants to elect to have the fee reconciled against actual costs within the current arrangements. Since the original fee of any given application is refunded in full to the customer if the scheme proceeds to completion, then to this extent, NG is not concerned with the actual costs incurred. A developer however needs to get early sanction for applications and the fixed fee process removes uncertainty in out-turn costs.

Proposal 1 seeks views on removing the existing zones and having an application fee based on a core fee and with a supplement if another TO is involved. This would appear to provide for a simplification of the existing fees tables using the boundaries of influence diagram as guidance for applicants.

Proposal 2 seeks to reduce the capacity threshold bands for fees from five down to three based on recent applications. This rationalisation also appears to offer a way to

simplify the capacity thresholds into fewer bands. However EDF Energy does not understand why it is proposed to move the upper threshold from >1000MW to >1320MW. In paragraph 17 NG states that power stations larger than 1320MW will almost certainly require a new double circuit line cited as a reason for moving the threshold. This does not necessarily apply as existing infrastructure may well be in place without triggering the need for a new line.

EDF Energy does not support **Proposal 3** which seeks to introduce a core fee supplemented by a cost based on capacity applied for. NG sought to simplify the range of fees applicable in Proposal 1 and 2 but this re-introduces further complication. The existing arrangements of fixed fees should on average recover the costs that NG incurs as these will already include some risk premium to cover uncertainties. The costs incurred by NG in processing similar transmission capacity applications could be significantly different due to different plant technical data and location. It seems unlikely that introducing an element of cost/MW will be any more cost reflective in any particular application.

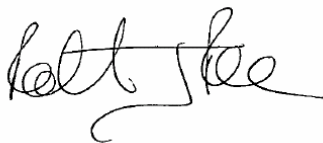
As discussed above the suggestion that NG include a risk premium in **Proposal 4** for fixed fee applications should already be included in the existing scale of fixed fees.

EDF Energy is sympathetic to NG's suggestion in **Proposal 5** to treat offshore applications on an indicative cost basis only until more certainty about actual costs has been established. As soon as practicable these should be included within the scale of fixed fees.

EDF Energy has no issue with the proposed cosmetic change in **Proposal 6** to re-structure the fee tables into entry/ exit/other categories

If you have any queries regarding this response, please contact John Morris on 01452 653492.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome
Head of Transmission & Trading Arrangements
Corporate Policy & Regulation

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4th December 2009

Dear Nick

Re: Open letter seeking industry views on proposals to restructure application fees

Thank you for the invitation to provide comments on the above open letter dated 16th November 2009. The following response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply & Trading GmbH and RWE Innogy GmbH.

We note that this consultation focuses on the determination of the fixed price application fee. As an overriding comment we consider that the variable price application route, where only the costs incurred by National Grid are charged to the applicant, provides a more efficient process. We would therefore encourage National Grid to also focus on improving the transparency and administration of the variable price application process in order to give the necessary confidence and encourage applicants to opt for this route. Regarding the changes proposed in this letter, we do not believe that any change to the structure of the onshore application fees is required at this time.

Proposal 1 – remove zones

Question 1

Do you believe the existing application fee tables could be clearer?

There may be scope for improving the clarity but there would not appear to be any compelling reason put forward to support the proposed structural changes.

Question 2

Do you agree that replacing zones with an application fee increment per TO involvement based on the boundaries of influence map would aid clarity by significantly reducing the number of application fees?

No. The objective of restructuring the application fees should be to make them more cost reflective and not just to aid clarity. We would expect clarity to be achieved irrespective of the structure.

Furthermore, we do not accept that the involvement of one or more TOs provides a valid basis for an additional element of charge, given that the TO would only be

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Board of Directors:
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Dr. Bernhard Günther
Dr. Peter Kreuzberg
Richard Lewis
Alan Robinson

Head Office:
Essen, Germany
Registered at:
Local District Court, Essen
Registered No.
HR B 14327

carrying out work that would otherwise be carried out by National Grid as TO for applications within England and Wales. Any such mark-up arising from administrative activities between licensees would represent process inefficiency as far as the applicant is concerned.

Question 3

Do you have any other ideas to simplify or reduce the number of application fees?

Reducing the number of zones or number of application fees is likely to reduce cost reflectivity and we would not support such a change if it had the sole objective of aiding clarity.

Proposal 2 – revised capacity threshold categories

Question 4

Do you agree with the reduction in the number of capacity threshold bands?

No - refer to answer to Q3

Proposal 3 – maintaining cost reflectivity

Question 5

Do you agree dividing application fees into an overhead and a £/MW rate is sensible to maintain cost reflectivity?

Generally we would expect a fee that is directly related to the requested capacity to be more cost reflective for new connection applications. However, this relationship is unlikely to hold for modification applications which may be submitted for a variety of reasons unrelated to total power station capacity. Furthermore, the fee must remain proportionate to the works to be undertaken by the applicant and such fee may significantly exceed the total cost of the material change (i.e. £10,000+) that triggered the requirement to submit a modification application.

Question 6

Do you have any other suggestions on maintaining cost reflectivity of application fees if wider capacity threshold bands are used?

Irrespective of the capacity threshold bands, the cost reflectivity would be improved by:

- (a) specifying a period of time within which National Grid would be required to reconcile variable price application fees, for example within six months.
- (b) National Grid being required to provide adequate documentation to the applicant to demonstrate that costs have been necessarily and efficiently incurred when reconciling a variable price application.

Question 7

Do you agree there should be an explicit cap on application fees?

Yes. A cap should be applied to variable price applications for both onshore and offshore applications. We consider it unreasonable for the applicant of a variable price application to be exposed to the risk of an unlimited charge. In addition, for variable price applications where National Grid's cost in processing the application is likely to exceed the application fee, we suggest that National Grid be required to seek approval from the applicant whether it wished to still proceed with the application for, say, each £100,000 increment of cost.

Proposal 4 – premium for fixed fees

Question 8

Do you consider a premium should apply to fixed price application fees?

No. We understood that the various prices for fixed price applications already reflect the total overall costs incurred by National Grid in processing applications. The application of a premium would only be applicable if there was no opportunity to average out sum of the individual application costs between a number of applicants. However, it may be appropriate to discount the application fee for modification applications.

Proposal 5 – treatment of offshore generation

Question 9

Do you agree that offshore application fees should be on an indicative basis only until more certainty on actual costs is available?

We accept that, for second stage offers where National Grid may not initially have sufficient cost data to establish a fixed price fee, an indicative application fee may be applicable. However, such arrangement should:

- (i) apply to second stage offers
- (ii) apply for a limited period of time until costs are established
- (iii) be subject to a cap on the cost to the applicant and
- (iv) National Grid to ensure adequate transparency of costs to support the reconciled charge.

Question 10

Do you agree that an application fee should be paid on a per onshore connection point basis?

The consultation is not clear what is meant by more than one onshore connection point. However, on the basis that it intended to mean that the applicant has requested a connection to two or more NETS substations which would be geographically many miles apart, the payment of separate application fees would seem appropriate. However, should these substations be within close proximity, a separate application fee would not be appropriate. Clearly, the difference between many miles apart and close proximity would need to be defined.

In the event that National Grid determines that the connection to more than one NETS substation would be required following the submission of a connection application for a single connection point, we would not consider a request for a further application fee to be reasonable.

Question 11

Do you agree with the approach to using the “additional TO fee” as a means of calculating the appropriate application fee for offshore generators?

No – The TO would only be carrying out work that would otherwise be carried out by National Grid as TO for applications within England and Wales. Any such mark-up arising from administrative activities between licensees would represent process inefficiency as far as the applicant is concerned.

Question 12

Which of the three options would you prefer for the treatment of the two-stage offshore offer process, or can you suggest other alternatives?

Our preference would probably be for Option 2. We suggest that the first and second stage offers are treated separately as far as the determination of application fees is concerned. In the case of variable price applications, we consider that they should be reconciled as discrete activities as soon as possible.

Generally, we consider that costs incurred by National Grid, over which the applicant may have little or no visibility or control, should be reconciled as soon as reasonably practicable and not left to accumulate over a lengthy period of time solely for administrative ease.

Regarding costs incurred by the selected OFTO, we would welcome National Grid's proposals regarding how it intends to demonstrate to the applicant that such costs have been necessarily and efficiently incurred. See also answer to Q13.

Question 13

Do you have any other thoughts or observations with respect to the Offshore regime and application fees?

Before commenting further, it would be helpful if National Grid would identify in some detail those elements of work that are attributable to the offshore connection / modification application process. In particular, we would wish to understand the relationship between those costs that should fall to the OFTO or be absorbed by National Grid as part of the capital cost of the works.

Proposal 6 – restructure tables by “entry / exit / other”

Question 14

Is the proposed Application Fee table design an improvement over the existing structure?

Given that the table design also incorporates other changes to the charging structure it is difficult to comment whether the table design in itself represents an improvement to the existing means of presentation.

I trust that you will find the above comments helpful. If you wish to discuss any matters further please do not hesitate to contact me.

Yours sincerely

By e-mail

John Norbury
Network Connections Manager

Nick Pittarello
Charging Manager
Transmission Commercial
National Grid plc
National Grid House
Gallows Hill
Warwick
CV34 6DA

Your ref

Our Ref

Date

5th January 2010

Contact / Extension

01698 413444

Dear Nick,

Response by SP EnergyNetworks to National Grid open letter seeking industry views on proposals to restructure application fees

I am responding on behalf of SP EnergyNetworks (SPEN) to the above open letter. SP EnergyNetworks is responsible for the three licensed network businesses; SP Distribution Ltd, SP Manweb plc and SP Transmission Ltd.

Thank you for the opportunity to respond on the open letter recently published seeking view on proposals to restructure application fees. SP Energy Networks (SPEN) is fully supportive of National Grid's (NGET) work to develop the structure of application fees to the extent that they may be simplified.

The number of zones does create a level of complexity in setting application fees that we believe could be simplified and easier to understand. The proposal to replace the zones with an application fee increment linked to the number of TOs involved in the offer development would appear to a sensible approach. Such an approach however assumes that the increment is cost reflective for both the applicant and the TOs involved.

For those applicants electing for an indicative application fee, SPEN are supportive of the reduction in number of capacity threshold bands and the introduction of an associated core fee and rate per MW. Where applications elect for fixed fees, inclusion of a premium is appropriate.

SPEN recognises that the introduction of the offshore regime brings with it many new challenges, some of which have been identified within the open letter. Given the level of uncertainty regarding both the process and costs for offshore applications, SPEN agrees with the proposed indicative only approach for the time being. SPEN believes adopting such an approach will ensure cost reflectivity and recovery.

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Finally, we welcome a simplification to the application fee table. Keeping in mind the main drivers behind the need for change, the restructured table, having taken into account the key elements of the proposals outlined within the open letter should deliver the aim of providing greater clarity and simplification for customers.

I would be delighted to discuss with you in more detail any of the points raised in this response.

Yours faithfully,



Deborah MacPherson
SP EnergyNetworks

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Ref: R&M/024/02/10035

08 January 2010

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Dear Nick,

Open letter seeking industry views on proposals to restructure application fees

Thank you for the opportunity to respond to this open letter consultation of 16 November 2009. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

We welcome and are broadly supportive of steps that simplify the charging structure so long as measures are taken to ensure that the charges remain transparent and cost reflective.

The enduring offshore transmission operator arrangements are far from certain at this time and the approaches proposed here for offshore applications should be reviewed, and kept under review, once the enduring arrangements are finalised and implemented. In particular, the scope and involvement of the OFTO may vary depending on the applicant's choice – this should be reflected in some aspects of the proposals. Our responses to the questions related to offshore applications are made on this basis.

In answer to your specific questions we respond as follows:

Question 1 – do you believe the existing application fee tables could be clearer?

Question 2 - do you agree that replacing zones with an application fee increment per TO involvement based on the boundaries of influence map would aid clarity by significantly reducing the number of application fees?


A generation project that requires a connection to, or use of, the transmission system is likely to be relatively complex. Therefore it is reasonable to expect that the applicant has the relevant expertise required to interpret the application fee tables, which we believe are sufficiently clear. However, there is a multitude of options available to applicants and reducing these in the interests of clarity and simplicity is welcomed. Provided clear guidance and examples are provided, the proposal to base application fees on the number of TOs involved is valid.

Question 4 - do you agree with the reduction in the number of capacity threshold bands?

We suggest that further historic analysis should be carried out to determine a more representative sample of the distribution of applications by capacity. Although applicants have the option of an 'indicative' cost application, anything that reduces the cost reflectivity of the fixed cost application option should be avoided. By reducing the number of categories, the fixed cost application fee will be less cost reflective and therefore this is likely to disadvantage the sub-100MW applications, which are likely to be mostly comprised of onshore windfarms, especially in Scotland where the transmission system includes 132kV assets. Therefore we believe that, without some further measures being implemented, this will disadvantage smaller onshore windfarms and should be avoided.

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Question 5 – do you agree dividing application fees into an overhead and a £/MW rate is sensible to maintain cost reflectivity?

Question 6 - do you have any other suggestions on maintaining cost reflectivity of application fees if wider capacity threshold bands are used?

Question 7 - do you agree there should be an explicit cap on application fees?

The principles of the proposal designed to ensure cost reflectivity of application fees appear to be reasonable. However we are still concerned about the impact this – coupled with the widening of the application bands - will have on sub-100MW generation projects (particularly for new renewable projects in Scotland). For the reasons given above, we would prefer to see more capacity bands in the sub-300MW band. However, if the proposal to widen the application capacity bands is adopted a potential way of countering concerns over the impact on sub-100MW projects could be to have a lower base fee, consistent across all bands, with a higher capacity rate fee. These should be set at levels that are more representative of the costs across all capacity levels.

We have a particular concern regarding 'Mod Apps' (particularly for TEC reductions) where a standard fee is payable even although it is clear there is minimal work required by NGET involved. This could be mitigated by a lower fixed cost element but could then be disadvantaged by the £/MW change. We would therefore suggest that it would be appropriate to introduce an application category to address this concern.

The explicit cap on indicative application fees is welcomed but we believe it should be lower and not based on the worst case used to justify the level of the proposed cap. Further analysis of actual costs incurred should be used to determine a more realistic and reasonable level of cap.

Question 8 - do you consider a premium should apply to fixed price application fees?

The principle of including a risk premium to ensure price certainty is reasonable, but the level of premium should be reasonable to reflect 'risk/reward' in the circumstances and should not simply be set at a level that guarantees that all of NGET's costs are covered. Given that NGET's driver is to minimise or avoid exposure to unrecoverable costs, in the event that a connection does not proceed, the applicant should only be charged the lower of the fixed, risk premium adjusted price and the actual costs incurred.

Question 9 - do you agree that offshore application fees should be on an indicative basis only until more certainty on actual costs is available?

Subject to our general comments regarding the current uncertainty over the enduring OFTO arrangements, this proposed approach is appropriate.

Question 10 - do you agree that an application fee should be paid on a per onshore connection point basis?

In principle this seems reasonable, although there are likely to be some common work, and therefore costs, for each application that could be reflected in a reduced base fee for each additional connection point/application in excess of 1.

Question 11 - do you agree with the approach to using the "additional TO fee" as a means of calculating the appropriate application fee for offshore generators?

As this approach is consistent with the onshore proposals it appears appropriate.

Question 12 - which of the three options would you prefer for the treatment of the two-stage offshore offer process, or can you suggest other alternatives?

Depending on the outcome of the current consultation on the enduring OFTO arrangements (particularly in respect of the scope of the role of the OFTO) we would suggest that a variation on option 1 may be more appropriate. This would involve delaying the reconciliation until the later of the OFTO being appointed and the OFTO providing a firm connection design to the applicant.

Question 13 - do you have any other thoughts or observations with respect to the Offshore regime and application fees?

As set out previously, the outcome of the current consultation on the enduring OFTO arrangements may result in the scope of the OFTO role being different from as currently proposed. Therefore, we believe it will be appropriate to review the approach to offshore connection application fees following the conclusion of the consultation.

Question 14 - is the proposed Application Fee table design an improvement over the existing structure?

Yes.

Question 15 - are there other examples that would benefit from clarification?

We believe that the process for payment of application fees and validation of the application should be simplified. Currently, following receipt of an application, NGET issue an invoice and the application is only validated – and the offer preparation process timeframe starts – when NGET receive payment of the fee. We believe it would be simpler if either the offer preparation process started when the application is received or if a payment could be submitted with the application. The latter may be more acceptable and should be more feasible following implementation of these proposals to restructure connection application fees.

We hope our responses and comments are helpful but please contact me if you would like to discuss or clarify any aspects of them.

Yours sincerely,



Allan Kelly
Regulatory Policy Manager
ScottishPower Renewables