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Dear Alex

MODIFICATION PROPOSAL UoSCM-M-10, DCLF

ScottishPower welcomes the opportunity to provide comment on NGC's Modification Proposal UoSCM-M-10 for the amendment of the methodology for calculation of locational TNUoS tariffs. 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grounds now exist for the current England and Wales review to be abandoned, the charging modification proposals to be withdrawn, and efforts to be concentrated on developing appropriate charging methodologies for GB.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 users of your own. This is not conducive to competition.

UoSCM-M-10

ScottishPower welcomes NGC's decision not to introduce a number of separate modifications for the individual changes to the charging methodology. The range of possible outcomes is thus reduced to a more manageable level, although we still believe that the treatment of substation costs in the TNUoS methodology should have been linked specifically to the proposed change to the Plugs connection methodology. Without a complementary change to the treatment of substation costs, we believe that the charging 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. In the event that the Plugs connection methodology is accepted while UoSCM-M-10 is rejected we would look to NGC to bring forward an alternative modification to remove the costs of substation assets from the expansion constant in the current charging model.

The DCLF model is claimed to be more realistic than the current transport model because it is based on more accurate line flows. While this may appear to be so, it remains the case that the calculation uses the most unlikely generation schedule which could be imagined, with all generation scaled to match the peak demand. Within this methodology therefore, the alleged accuracy of the model appears to be a relatively minor issue.

We agree that the substation costs should be recovered through a uniform positive charge on all users and agree that the expansion constant should be forward looking and include only the costs of lines and cables. However, we are not convinced that the expansion constants should be voltage specific and, while we welcome the use of the average expected investment costs over the price control period we would reiterate our suggestion that a single expansion constant should be used and that it should relate to the average expected investment costs over all voltages.

While we support the use of a simple model which can be made available to users, the use of a supplementary security factor to increase the locational differentials produced by the model continues to cause us concern. We believe that security is a "common good" and should be paid for by all users through a uniform positive charge. We remain to be convinced that the proposed technique is correct and, even if it is, we do not believe that the factor of 1.9 is necessarily correct given that it is based on "an indicative analysis for the 2003 charging review..." and is also derived

from the ratio of spreads rather than from a best fit across all nodes. While it is welcome that the factor will be reviewed at each price control, we do not believe that it should necessarily be uniform across the network. We also do not believe that NGC has published enough scenario analysis to support their claim that the DCLF tariffs will be less volatile than transport model tariffs. More scenarios should have been studied and made available to users before any formal proposals were tabled.

Generation charging zones

While the modification proposal UoSCM-M-10 appears not to mention it, we note that the illustrative revised draft of the statement of the UoS charging methodology includes a significant change to paragraph 2.21 regarding the revision of the generation charging zones. Currently the paragraph clearly states that “Zones will not be reviewed more frequently than once every price control period to provide some stability.” The word “typically” has now been inserted to allow NGC to revise the charging zones at will. The abolition of generation only spurs will lead to increased volatility in TNUoS charges and the weakening of paragraph 2.21 will further reduce the stability of charges faced by users. Furthermore, increased volatility of charging zone boundaries will do nothing to facilitate development of a system of tradable access rights. We do not support this change.

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 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

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