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Tuesday, 29 July 2003

Alex Thomason
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Dear Alex

Proposed Connection Charging Methodology

Thank you for your letter on 12 September 2003 inviting comments on the above consultation.

AEP Energy Services does not fully support the proposed modifications.

CCM-M-07: Implementation of "Plugs"

The proposed 'plug' methodology for definition of boundaries is a more simplistic and transparent approach. The principal may encourage new connections and therefore may facilitate competition in generation and supply. However, AEP are not of the opinion this is the case nor is it reflective of the true cost of system development nor does it meet the criteria of the Licence Objective C7A (5a).

The cost of connection for participants who locate near to current transmission assets would be better reflected by a 'plug' approach. But existing users will subsidise participants who are a significant distance from existing transmission assets. As the distant connectee will not incur any connection charge, the economic signals for location of new assets will be lost, invariably existing connectee pick up the cost via the Use of System charge.

National Grid believes that locational signals will be transferred into the TNUoS charge by modifications to the zoning criteria applied to the TNUoS charging methodology. AEP of the opinion that this does not facilitate Licence Objective C7A (5a) by promoting competition as the zoning criteria utilises a bandwidth principal and zoning by nature will have a cross subsidy on other local zones.

Also AEP do not believe that the proposal meets Licence Objective C7A (5c) of promoting efficient transmission development, again due to the cross subsidy effect and the effect creation of a additional zones will have on locally adjacent zones.

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AEP do not believe that this meets the criteria of Licence Objective C7A (5a) in promoting competition between existing and new participants.

With reference to the Environmental Audit Committee – Eighth report[1] recognizes that large-scale investment is likely to be needed to modernize the grid to accommodate higher levels of distributed processing and major new sources as offshore wind farms.

The plans for increase in renewable energy, especially offshore wind farms[2] will drive large investment at the fringe of the transmission system. The proposal would create an environment where existing users subsidize new participants on the fringe of the transmission system – by increasing the system charges. Again, Licence Objective C7A (5a), this does not facilitate effective competition within the industry, neither does the proposal reflect of the true cost of system developments if a new entrant does not have to consider location or location of connection to the transmission system.

We understand the need for renewable energy producers and appreciate that the periphery location of these participants is unavoidable. Yet we believe that there is a need to reflect the true cost of infrastructure improvements and incentives for encouraging renewable energy that is not detrimental to existing participants.

AEP understands that a simplified and transparent methodology has benefits, and would recommend that transmission connections specific for remote generators – generator only spurs - are not included in the infrastructure charge. We would also recommend that termination charges remain as this method ensures the true cost of system development is considered with the additional benefit of preventing unnecessary system development that would be passed to existing users.

AEP does not agree with the National Grids view that site-specific charges should be reconciled on an annual basis. Maintenance is generally predictable and a forecast should be made on expected expenditure. We believe the site-specific maintenance charge should be smoothed across a defined time period.

We appreciate that reconciliation will be required as an exact charge will not be available, but through reconciliation the full revenue would be recovered. Increasing volatility creates more uncertainty to the users existing charges. By implementing a recovery factor the annual charge can be adjusted so full recovery is smoothed over a set period (for example 3 to 5 years).

[1] Environmental Audit – Eighth Report, Fuel Poverty, note 58
http://www.parliament.the-stationery-office.co.uk/pa/cm200203/cmselect/cmenvaud/618/61802.htm
[2] DTI, Energy White Paper, section 4.47
http://www.dti.gov.uk/energy/whitepaper/ourenergyfuture.pdf

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UoSCM-M-10: Calculation of Locational TNUoS Tariffs

AEP believes that the total elimination of termination charges will not drive efficient transmission development – Licence Objective C7A (5c). Without some form of financial obligation from new entrants, existing participants will be exposed to additional increases in charging to cover developments where the new entrant fails to materialise.

AEP supports moving substation assets to infrastructure and agree that this action would better facilitate the licence objectives. We also support the approach of flat charging for these assets. We understand that shared sites may cause uncertainty for existing and new users at that particular site, and the proposals will create stability and transparency with the charging regime.

AEP, in principal, does support the transition from a transport model to a load flow model. Although a DC load flow model will increase complexity, the benefits from a more realistic model will reflect the true costs of use of system

The concept of a security factor against a more complex secure load flow model is desirable. However, we are concerned that a security factor is being included on a locational basis via the expansion constant. The principal of a locational security factor seems perverse. As National Grid apply the same security standards to all users, it would be fitting that the security factor is applied as a flat charge across all users. The inference that a higher level of security is required in the north of England and Wales than the south does not match the justification given in the consultation report where the differentials between the normal DC load flow and Secure DC load flow are approximately 1.9 nationally.

Under the current arrangements zones are created using a fiscal and locational bandwidth principal. The principals behind the zoning criteria use sound methodology and simplify the tariff process.

UoSCM-M-11: Introduction of Year Round TNUoS Charges

AEP is supportive of within year tariffs. The nature of a within year charge shows that the system is designed for more than demand system MW peak. We appreciate that a high proportion of the system is required for system peak and this will be the main developmental driver for the transmission system.

The current methodology considers exports from the UK as demand. The Triad charging scheme sets the charge for supply companies. This charge can be derogated by reducing the demand taken at the time of triad, or for Interconnector users, not exporting during possible triad periods. It does not meet Licence Objective C7A (5c) as the true cost of development is avoided by managing over triads.

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AEP believe that a charging regime for imports or exports should be levied on an annual energy basis. The current triad charging methodology on the Interconnector is neither cost reflective nor takes into account the cost of development.

An annual energy charge, levied on exports and imports would meet the two Licence Objectives of costs incurred with developments – C7A (5b) and accounting for system developments – C7A (5c). It would also create stability in the charging regime. The charge should be levied on a continuous basis so that the full recovery reflects the true nature of the imports and exports rather than charging during peak periods during the day.

Yours Sincerely

Mick Walbank
Transmission Analyst