



SCOTTISHPOWER

Energy Wholesale

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28 August 2008

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Dear Tom,

Response to the Pre-Consultation Document GB ECM - 11 **Charging Arrangements for Generator Local Assets**

Thank you for the opportunity to respond to this Consultation Document. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

ScottishPower supports in principle the introduction of a new basis of charging for local generation assets that supports the Transmission Access Review (TAR) and allows users to benefit from choices made in respect of their connection security. Option A offers a more transparent, predictable and stable methodology than Option B and is ScottishPower's preferred option.

The present charging methodology does not incentivise a user to apply for the most economically efficient connection solution. A connection to a standard lower than GB SQSS bears a greater risk of interruption and increased cost that should be reflected in reduced TNUoS charges.

In particular, provision of a design variation discount will be crucial to the achievement of the government's renewable generation targets. Renewable generation has to locate where its resource is greatest and this is often in areas where an SQSS compliant connection is not possible (particularly with respect to consent approval) or is not the most economically efficient option.

The introduction of a local asset charge is a necessary building block for the introduction of new access products envisaged under TAR. Users of over-run, short-term access products and connect and manage (in the period prior to wider reinforcement) would not contribute towards the long-term investment in the transmission infrastructure through payment of TEC but would require to contribute towards the cost of the connection assets and local reinforcement required to connect them to the transmission system. This is best achieved through the introduction of a local asset charge.

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It is disappointing that both methodologies proposed in the Consultation would result in higher charges overall for renewable generators connecting in the areas of greatest resource (i.e. remote northern locations further from the main transmission system) and it is likely that adoption of either methodology will act as a further disincentive to invest in these areas. In particular, it is clear from the worked example (Appendix 7) that the proposed methodology under option A will not pass through the full infrastructure cost savings to a generator who elects for a single circuit connection.

As some generators will be impacted with higher charges under both Options, ScottishPower suggests that the implementation date for the proposal should be delayed until April 2010 to allow parties to take account of the change in their contract positions. This would also have the benefit of aligning implementation with the other proposals under TAR.

The methodology adopted must be simple and able to be replicated by generators in order to provide the correct economic signals on the location and type of connection. Option A, Specific Treatment, provides a robust methodology for determining the assets to be classified as “local” and meets this requirement. The use of the DCLF model to determine the local incremental circuit flow introduces uncertainty to users from potential subsequent connections which could make Use of System charges less predictable by users.

The major concern with the introduction of Local Expansion Factors for 132kV connected generators is ensuring that the size of the sample being used to set the expansion factors is large enough to be truly representative of actual costs in the majority of circumstances. There is a risk that, with a smaller sample size, a single project may unduly influence the final expansion factor values. ScottishPower would expect National Grid to make sufficient data available to users to provide comfort that local expansion factors and substation costs had been calculated on a consistent and verifiable manner.

Option B, Distance to Zonal Hub, introduces a significant additional level of complexity to the charging model, makes the resultant charges less transparent and predictable and would potentially act as a disincentive to invest in new generation.

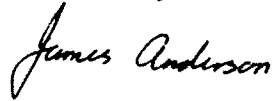
We would not support the use of the SECULF model for determining Local Security Factors. Once again this would introduce additional complexity, remove transparency and make it impossible for generators to replicate Use of System Charges.

ScottishPower agrees that the substation component of a local asset charge should reflect the cost savings associated with single circuit connection. However, introduction of a substation charge results in a significantly different charging basis for demand and generation and results in a sharper locational signal for generation than demand.

To provide consistency with the other TAR proposals, National Grid should provide an estimate of how much additional renewable generation would be expected to connect as a result of introducing this change. Subsequently, the success of this and other TAR changes can be assessed from the actual advance in connection of renewable generation.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "James Anderson". The signature is written in a cursive style with a large, prominent initial 'J'.

James Anderson
Commercial and Regulation