

17 September 2004

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Your ref:
Our ref:

Dear Richard,

Thank you for the opportunity to respond and comment upon your GB Transmission Charging: Final Methodologies Consultation for implementation from April 2004.

Magnox Electric Plc were strong supporters of the changes to the charging methodology you implemented for England Wales in April 2004. Our support for these changes was based upon;

- a. the methodology being firmly based on the fundamental economic principle that users of the system should, as far as is practicable, face the true marginal costs of their impact on the system and ;
- b. the methodology can be shown to better meet the relevant licence objectives when compared to the previous methodology, and;
- c. the methodology was developed in an open manner, in conjunction with industry members.

British Nuclear Group's views on the detailed issues raised within the consultation document and their applicability to the achievement of NGC's licence objectives are set out below;

a. Extending the England & Wales Methodology

The approach taken by National Grid throughout this current consultation process, in seeking to build upon the detailed analysis, discussion and consultation carried out under the England & Wales Charging Review in 2003, was in our view the correct approach. We agreed that the conclusions reached under this previous Review and the associated methodology changes that ensued very clearly better met NGC's licence objectives.

With a detailed re-examination the issues surrounding charging for Connection to and Use of the Transmission System under BETTA, it was not clear to us that the

inclusion of Scotland based Generation and Demand and any arguments presented to date contrary to this view, invalidated these conclusions.

b. Cost Reflectivity

As mentioned above, central to our views on appropriate methods for transmission charging is that the methodology being firmly based on the fundamental economic principle that users of the system should, as far as is practicable, face the true marginal costs of their impact on the system.

The development of a DCLF Model was a clear improvement over the previous ICRP Modelling approach in attempting to estimate the Long Run marginal Costs of transmission. Within this modelling approach, the ability to identify and estimate genuine cost differences between parts of the network that are operating at different voltage levels must be viewed as an advancement towards identifying the true marginal costs of transmission.

The differences in definition of 'Transmission' that currently exists between England & Wales and Scotland cannot be used and should not be accepted as an argument against multi-voltage estimates of marginal cost. If the marginal costs of an increment or decrement of capacity at 132kV is materially different from 275kV and 400kV then this should be reflected in the charging methodology if it is practicable to do so.

We would therefore agree with NGC's preference to adopt a modelling approach that is based upon multi-voltage expansion factors.

c. Facilitation of Competition

The impact of transmission charging on the wider electricity market and in particular the level of effective competition in generation is an important factor for consideration.

However, it is key to consider what the aim of competition facilitation should be. It is clear to us that the aim in this area must be an overall improvement in economic efficiency that flows from effective competition.

Against this definition it is not clear that if the arguments presented in the section above on Cost Reflectivity are to be held true, that the pricing of transmission for all system users on a basis that does not reflect marginal costs will provide anything but sub-optimal solutions with respect to economic efficiency. No evidence has been presented, that we are aware of, that conclude that providing a cross subsidy to specific system users via sub optimal transmission charges will increase the effective level of competition in the electricity market in a manner that will improve overall efficiency.

We would therefore agree with National Grid in that pricing in accordance with marginal costs wherever practicable must be the main driver for the effective facilitation of competition in the wider electricity market. We would therefore add our support to the premise that the favoured approach outlined in Scenario B would further facilitate competition and better meet NGC's licence objectives.

d. 'Renewables Discount'

We would generally support arguments that suggest that there are genuine benefits to be achieved from the provision of support to alternative forms of generation and in particular those based upon renewable energy sources.

However, we would question whether it is appropriate to provide provision of support for this sector via a Transmission Charging Methodology. We would agree with NGC that the methodology should be developed solely with regard to the applicable objectives in this area and any changes to charges should be directed under the new powers granted to the DTI by the Energy Act to adjust transmission charges for renewables. This would create greater transparency over the level of support that is being provided to renewable sources of generation.

In summary we would agree with NGC's conclusions that their Scenario B would provide a more cost reflective approach to pricing and would overall better meet their licence objectives and would provide our support for a final proposal based the principles underlying this methodology.

If you wish to discuss any of the above comments further then please do not hesitate in contacting me.

Yours Sincerely,

Nigel Burrows
Regulation & Market Access Manager
Energy Sales & Trading