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Dear Adam,

Introducing a new charge for Limited Duration TEC

I am responding to the above initial thoughts consultation on behalf of E.ON UK. E.ON UK supports the LD TEC proposal CAP094 in principle, but clearly the charge for the product is an essential feature which will ensure that the correct objectives are achieved.

We believe that a Limited Duration TEC product would enable more generation capacity on to the system allowing greater competition in generation and more efficient use of the transmission system. Our following comments answer each of the questions posed in the charging paper in turn.

Q1 - National Grid would welcome views on whether or not it is appropriate to adopt the charging principles established by the introduction of STTEC for developing the charging arrangements for LDTEC.

If this question relates to whether the charges should be set so as to avoid undermining TEC and to maintain locational charging, then we agree. However, we do not believe that this means that STTEC charging should be the basis for LDTEC charging. As you will know, we do not support the charging methodology for STTEC as we believe that it is inconsistent with the principles for charging for TEC. We would therefore be concerned if it were to be adopted for this new product.

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Q2 - National Grid would welcome views on the differences between LDTEC and TEC and how, if at all, these protect or undermine TEC as the prime transmission access product.

We believe that TEC would continue to be the primary access product choice for generators. We agree with the three qualities which protect TEC as listed in the table in the consultation paper namely that:

- TEC provides a free annual option to the same level of capacity the following year whereas LDTEC does not.
- LDTEC is a riskier product as available access may vary from year to year or within year.
- TEC provides access at a level requested by the User whereas LDTEC provides access within a range.

The first two elements are the key differences which make TEC the premium access product above STTEC and LDTEC (should it be implemented). Generation businesses need certainty against which to plan. Although, the LDTEC product would provide greater certainty than STTEC presently affords, TEC by far provides the greatest protection for generators concerned with ensuring a route to market.

In terms of characteristics which could work against TEC, we agree that LDTEC would potentially provide a more rapid route to market than TEC and as a result could allow Users to respond to relatively short-term price signals. However, we note that the minimum timescales for consideration of applications are not significantly different (3 weeks for LDTEC and 4 weeks for TEC). Additionally, if such a response requires returning a unit or station to service, then logistical and technical limitations are likely to constrain the ability of a generator to respond to short term price fluctuations. It is more likely that a generator would require certainty of access so that it generate for a relatively sustained period.

We are not sure why the potential for LDTEC to provide discounted access to the transmission system has been listed as a characteristic which could undermine TEC. This would surely depend on the charging for LDTEC, rather than being a reason to construct the charging in a certain way.

Q3 - National Grid would welcome comments on the level of any premium needed to protect TEC, if any, and the justification for this level.

We do not believe that LDTEC is a more attractive access option than TEC and therefore do not believe that it should necessarily be priced at a premium to TEC. However, if a premium is attached it should not be set at a high level and certainly not as high as that for STTEC (around 170% over the year).

Q4 - National Grid would welcome views on whether LDTEC charges should be derived from locational TNUoS tariffs in positive charging zones and be zero in

negative charging zones.

We believe that ideally, LDTEC charges would be completely consistent with the basis for charging TEC. Therefore, LDTEC would be charged the existing TNUoS rate on the maximum capacity level achieved during the financial year. If this is not to be the case we believe that the charge should be linked to the level of TNUoS in the relevant charging zone.

Q5a - National Grid would welcome comments on the appropriateness of the various tariff profiles identified.

Q5b - National Grid would also appreciate views on how the 'up-front' approach should treat multiple applications for LDTEC in the same year.

Q6 - National Grid seeks views on the most appropriate capacity driver for setting charges.

We propose to address these questions together, as both the price profile and basis of charging have to be considered together to ascertain whether there are appropriate options. However, we will focus on the profile options to provide a structure for our response.

- a) Flat profile – We would support a flat profile if it was applied in a similar way to TEC. That is, if TNUoS or a multiple of TNUoS was charged on the maximum level of access provided under LDTEC in the charging year. If it followed the flat charge approach of STTEC we would not support it as it would be inconsistent with TEC charging without a justifiable cost driver.
- b) The upfront profile – We are a little unclear as to how this would work. For instance, if a generator was allocated 10MW of capacity for the period of the higher upfront charge which subsequently increased to 100MW for the period when the lower charge kicked in, would it attract the lower charge for the whole 100MW or just 10MW of it? If the former, then why would it be charged a lower rate than someone who had two separate shorter periods making up the same access profile which potentially would attract two upfront higher charges of 10MW and 100MW each? More complex profiles would provide greater problems in ascertaining which rate to charge. Arguably, however the upfront charge would at least bring the LDTEC charging closer into line with TEC for short durations of access and aims to ensure that the generator is not overcharged for longer periods. Therefore, it potentially is a better option than the flat rate and, should the inconsistencies mentioned above be addressed, could be made to work.
- c) Peak profile – A peak profile arrangement could be used to provide a charging methodology which bridges the rationales for the STTEC charge and the TNUoS charge. The present rationale for the STTEC charge is that 90 percent of the cost of the system is incurred in order to meet peak requirements. However, the TNUoS charge is levied against the maximum level of TEC achieved throughout the year.

The LDTEC charge could be set so that the generator was charged:

- 10 percent of the prevailing TNUoS rate for the maximum off-peak capacity provided under a LDTEC; and
- 90 percent of the prevailing TNUoS rate for the maximum peak capacity provided under a LDTEC.

The peak period could be defined as October to March with the off peak period being April to September. A LDTEC which bridged both off peak and peak periods would be charged both charges. We believe that this structure would enhance TEC's position as the primary access option for two main reasons:

1. If you use LDTEC for the peak period you incur 90% of the charge you would for TEC anyway. Therefore, it doesn't represent much of a saving over TEC and it would be worthwhile obtaining TEC to gain the additional certainty associated with it. Most generation would wish to generate during the peak period so we would expect the vast majority of generators to make this decision.
2. If the capacity is required for the off-peak period only, it is correct that it should not be included in the charging model. Therefore, there is no reason to ensure that it is provided under a TEC.

This would also avoid problems associated with multiple applications as the peak capacity level could be reconciled at the end of the year in the same way TEC presently is. It is true that this peak charging approach could mean high charges if a peaky profile of LDTEC is provided. However, under the option we prefer for CAP094, the combination of Profiled TEC and Indicative Profiled TEC, the generator could opt for a level which best suited its purposes and potentially removed any spikes from the profiled offer, in the same way that a simple block can be constructed from the profile. Therefore, we believe that this issue could be managed by the generator.

- d) The seasonal profile could be made to work, but it is not clear what the rationale would be for setting the seasons. The simple 90 percent/10 percent split of a peak and off-peak approach is cleaner and more justified by NGC's investment rationale.

Q7 - National Grid seeks views on whether the use of TEC and an equivalent level LDTEC in the same year should be treated differently in charging methodology, as in these circumstances TEC has not been undermined by LDTEC.

We believe that, in the absence of underlying cost drivers to suggest otherwise, all capacity products should be charged on a consistent basis. Therefore, if the same overall capacity has been provided through the financial year, the liabilities should not differ markedly as a result of the choice of access products used. In a situation where a generator is acquiring a shorter term product until a TEC is able to be provided we strongly believe that the generator should not be charged twice for its access. Of the options put forward, we would support the full consideration of TEC purchased as the

other two options would lead to double counting to some extent.

Q8 - National Grid seeks views on whether the drivers for the LDTEC application fee are appropriate.

We basically agree with the charge drivers derived by National Grid. However, we would question whether the additional charge for the rolling assessment associated with the Indicative Profiled option should be charged if the generator declines the product, as this assessment is only necessary if the product is accepted.

I hope the above comments help National Grid in setting its final proposal.

Yours sincerely

Paul Jones
Trading Arrangements