

17th September, 2004

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Dear Richard,

GB Transmission Charging: Final Methodologies Consultation

Thank you for the opportunity to comment on the above consultation.

Key Points

- **Of the two Scenarios presented for consideration British Energy supports Scenario B.**
- **British Energy fully supports the proposal to redefine the G/D split. As a point of principal British Energy also supports a move towards $G=0$ on average in order to align with other EU member states position.**
- **Charges should be stable, predictable and proportionate as far as is practicable. There should be no special treatment for any particular group as that would distort competition.**
- **Neither of the scenarios presented are ideal as we do not support transmission charges that vary excessively by location for incumbents. Whilst we recognise that the DCLF model may approximately reflect actual power flows in the system, the case for marginal cost locational pricing in a system with large sunk costs in operating assets is weak.**
- **The application of the GB Model as proposed still contains uncertainties. We therefore do not have confidence that it provides users with a reasonable estimate of illustrative charges under BETTA. The continuing uncertainty over the final tariffs creates additional business risk, for both generators and suppliers. It is important that this is resolved as quickly as possible.**
- **BE does not support the idea of a Locational Security Factor. System security is of benefit to all and costs associated with its provision should**

fall equally on all users. BE does not support the extension of the Locational Security Factor on a GB basis.

GB Use of System Charging Methodology

Usage of SYS data in the DCLF Transport Model

British Energy agrees that it will be appropriate to use the Interim GB SYS data in the DCLF transport model for the initial tariff modelling. It is our view that this will be sufficient until the full GB SYS is available for the subsequent year.

It is also appropriate that the interconnectors are to be treated in the way set out in the consultation. These values are reflective of the flows on these assets at peak periods.

Multi-voltage Expansion Factors

As a fundamental principle British Energy does not support the use of forward-looking investment modelling to recover sunk transmission network costs.

National Grid have always maintained that cost-reflectivity facilitates competition as well as stability. The recent charging review in England and Wales moved towards the multi-voltage approach due to the increased cost-reflectivity that NGT claimed it gave. Any moves away from this position for the GB model would be a backward step. It is unreasonable to suggest that a fundamental tenet of the new England and Wales methodologies should be removed during the extension to GB, given that a major round of consultation has just put it in place.

National Grid's approach in Scenario B where a percentage of circuits are modelled as moving to 400kV is preferable, rather than specific individual circuits being modelled as 400kV, as it should provide greater stability within that version of the methodology. This is because it ought to mitigate against any difficulty arising in future from large changes in particular zones if it is used in a non-locational manner.

The calculation of the Expansion Constant should not include substations as that would overstate incremental costs and the substation element is non-locational. This was established in last year's review of the methodology in England and Wales.

The NERA report on Transmission Charging that was submitted to NGC prior to the publication of this consultation. Whilst it has been noted within this consultation British Energy does not believe that it has been fully addressed and in particular the Expansion Constant is still too high. The reasons for lowering the Expansion Constant have not, in our opinion been convincingly refuted.

Generation Charging Base

British Energy agrees with the proposal that all directly connected generation should face relevant charges and that all embedded generation capable of exporting more than 100MW should also be liable for generation charges for use of the transmission

network.

Generation Zoning

British Energy agrees that the current zoning criteria are appropriate for the setting of zonal tariffs for the scenarios considered in this consultation. This is a facet of the model that ought to be considered during any review of the methodology as it will change over time with the development of the network.

GB Security Factor

British Energy has stated previously that it does not support the idea of a Locational Security Factor. System security is of benefit to all and costs associated with its provision should fall equally on all users. BE does not support the extension of the Locational Security Factor on a GB basis.

[The use of a “Locational Security Factor” exacerbates negative charges which, in BE’s view, are a product of a flawed methodology and make no sense in recovering the costs of a predominantly sunk transmission network.]

Negative demand charges

British Energy agree that negative demand charges encourage inefficiency and we do not support negative charges.

National Grid presented two options for avoiding negative demand charges. Firstly revising the overall split of generation and demand charges in the TNUoS model (currently set at 27/73 in E&W). Secondly, allowing the TNUoS tariffs to be calculated normally and then overriding the values to the de-minimus level in the relevant zones.

In the circumstances, British Energy think that the correct approach is to reapportion the G/D split in such a way that a comfortable margin of positive charges will exist against the expected new generation in Scotland from the increase in renewable connections.

We fully support the move to lower G charges, which is in accord with the way transmission charges are levied in many EU member states and is more economically efficient.

Renewables in the Highlands and Islands

Renewables in the far north of Scotland may be exempted from the full TNUoS as the DTI have stated that they may pay only a proportion and the remainder will be recovered from the GB demand users. With the level of discount or the tariff cap unknown, together with the considerable uncertainty regarding the level of qualifying generation, the costs which will ultimately fall on consumers are unknown. This uncertainty hinders supply competition. Any assistance given to a particular sector to meet wider government policy objectives should be given outwith the charging methodologies.

Hydro Benefit

In what form this historical assistance for Scottish consumers will continue needs to be confirmed quickly. With the level of the hydro benefit or the tariff resulting from it still undecided there is growing uncertainty amongst suppliers. This uncertainty hinders competition. It should also be noted that there will be a significant impact on large energy users from this additional tariff.

Other Issues

GB Connection Charging Methodology

British Energy supports the Connection Charging Methodology as it is applied in England and Wales and agrees that this is acceptable for implementation across GB.

Assumptions used in the GB DCLF transport model & Tariff Setting

There is still the unresolved issue surrounding the allowed revenue recovery. This is contributing to uncertainty in the industry and it would be helpful if further guidance could be given in a more timely fashion as January 2005 does not allow sufficient time for the wider industry to react to these changes and the additional business risk that they cause.

Uncertainty over the future GB tariffs represents an unhedgeable risk to supply businesses in future years. National Grid should publish firm tariff information at least six months ahead of implementation otherwise supply competition will be damaged.

As we have stated earlier there are also good arguments in favour of a further move in the G/D split towards $G=0$ on average, as this would be in line with practice in most other European States.

If you have any questions regarding this response please do not hesitate to contact me.

Yours sincerely,



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