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16th September 2004

Dear Richard,

GB Transmission Charging: Final Methodologies Consultation August 2004

Thank you for the opportunity to respond on National Grid's current view of the transmission charging methodologies to be applied across the Great Britain (GB) electricity market following the implementation of the British Electricity Trading and Transmission Arrangements (BETTA).

As with our previous responses, Immingham CHP welcomes National Grid's intention to develop the GB charging methodologies from 1 April 2005 based upon the 'PLUGs' concept adopted in the amended England and Wales (EW) charging arrangements which currently apply. We reiterate that it remains important that all GB customers gain the benefits of genuine and consistent shallow connection charges as soon as possible.

In terms of the options for GB use of system charging presented in the August consultation, Immingham CHP remains wholly supportive of a cost reflective charging approach. In this regard, we endorse National Grid's view that Scenario B is the preferred option as it best promotes cost reflectivity, but would also make the following general comments:

- we note that the charges, as calculated, are indicative and that further variability is likely as the methodology is finalised and the final charges published on 31 January 2005. We would request that National Grid provides as much transparency and certainty as possible to the market regarding the new GB charging regime and the new GB charging tariffs as soon as possible. We note the change in the proposed timetable for finalising tariffs,

given Ofgem's desire to undertake a separate impact assessment during October 2004, but would expect National Grid to adhere as closely as possible to the proposed timescales in the run-up to BETTA go-live;

- whilst supporting Scenario B, we believe that application of the methodologies could still give rise to significant year-on-year variability. This potential instability highlights the need for NGC to develop sensible proposals for a long-term charging methodology that would enable generation market participants to hedge their risk outside of their control on an enduring basis. We note that National Grid is committed to a review of long-term charging after BETTA implementation and would expect this to be followed through in due course;
- we are pleased to note National Grid's comments that wider considerations, such as environmental impacts and government energy policy, should not be incorporated into the GB charging methodologies. We believe that that approach would dilute the cost reflectivity of the charging arrangements. Any non-transmission issues should be dealt with outside the charging arrangements by way of explicit subsidy and be fully transparent;
- whilst we note National Grid's comments about the appropriateness of a single GB locational security factor, we still believe that this could deliver arbitrarily wider locational charges, which would not necessarily be cost reflective;
- we continue to support the removal of negative demand charges, which would create perverse incentives at a time when low carbon outcomes are being promoted;
- we have a concern that once set, NGC could reopen zonal definitions. We believe that once set these should remain set for the life of the prevailing price control. We see no case for reopening zonal criteria as the current approach balances cost reflectivity and stability; and
- we note and expect that further discussions will take place about changing the generation to demand split of use of system charges in due course to allow with European Commission policy objectives, although Scenario B is moving in that direction.

As a final observation, it was apparent from TCMF last Friday (10 September) that some market participants are seeking presentation of wider options by NGC to Ofgem, including reconsideration of many of the elements of the package contained in the decision to adopt the DCLF and supporting modelling approach in England and Wales from 1 April 2004. We strongly reject such an approach for the following reasons:

- DTI conducted extensive consultation on the appropriate starting point for rollout of transmission charging under BETTA and reached firm conclusions that the PLUGs and DCLF decisions from last year should be the starting point some time ago;
- it did so within consideration of wider issues such as the applicable objectives that should be applied under BETTA, and the resulting methodologies contained within scenario A and scenario B should be seen as variants within

a composite package, which have already received widespread support from DTI and Ofgem, as well as from market participants; and

- at this late stage, with NGC already of being in breach of the 150 day notification rule, we should be looking at reducing uncertainty in the numbers in front of the market not increasing it."

Please do not hesitate to contact me on 020 7408 6233 if you have any questions regarding this submission.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R. Patel', with a large, sweeping flourish extending to the right.

Rekha Patel
Power Regulatory Analyst