

AES Indian Queens Power Ltd

Response to GB Transmission Charging: Initial Thoughts and Addendum

Thank you for the opportunity to respond to this Consultation. In broad terms we support the Transmission Network Use of System charging structure as giving proper incentives to locate generation (and demand) appropriately.

On moving to a single GB operated network and market we believe that it is appropriate to extend the current National Grid charging methodology to Scotland.

Clearly Scotland has a significant excess of generation as is evidenced by the flows from SHE to SP and onward to E+W and transmission charging signals should continue to incentivise generation where the generation is significantly less than the demand in the south of England.

Our Detailed comments on the consultation are:

Negative Demand Charges

The consultation rightly points out the potential perversity of having negative demand charges and offers two solutions: change the 27/73 generation/demand split; or collar the demand charges at zero.

We believe that collaring the charges at zero is inappropriate and that the generation/demand split should be altered so as to maintain the differential charges applying to demand and more importantly embedded generation.

Expansion Constant and Security Factor

In setting charges, the derivation of the expansion constant is an important element. The constant should represent the long-term marginal costs of use of the transmission system. It should take account of both the costs of past and future investments. The transmission system can accommodate additional capacity without using new assets. In practice, investment in the transmission system is not uniform, but is driven by the engineering characteristics of lines and plant. So the true marginal cost is a mix of historic costs, based on GAVs, and a small proportion of forecast costs. Given the complexity of this approach we continue to believe that the expansion constant should be based on GAV.

Clearly a single UK expansion constant is more transparent, and given the geography in Scotland costs will be higher; so it is appropriate to use a GB average.

It is, of course, correct to apply the security factor, however we would imagine that on a GB basis this factor would be higher than a pure National Grid one.

Stability of Charges

We continue to worry about the stability of the charging structure. Its purpose is to give long-term signals for the siting of generation and demand, hence stability of charges is a virtue. We note, however, that the scenarios in the addendum give quite significant changes in charges for relatively small changes in assumptions.

In addition we note that changes in the expansion constant significantly alter charges for parties at the periphery.

Cost of Constraints

We note that the cost of constraints has risen from £15/20m at the start of NETA to £50m in a recent NGT transmission services consultation.

Surely with constraint costs increasing, locational signals should also be increasing?

Conclusion

In conclusion we support the extension of the current charging methodology to Scotland and in line with this view that negative demand charges should be avoided by adjusting the generation/demand split.

We continue to believe that the expansion constant should be GAV based and that GB wide values should be used.

We hope that this assists you in your decisions.

Regards

Vic Danks