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GB Transmission Charging: Initial thoughts

Dear Stuart,

Please find detailed below our response on the issues raised in your document setting out your initial thoughts on the transmission charging methodologies for Great Britain under BETTA. The publication of this document early in the process is key to ensuring that all the relevant issues are identified and discussed fully and we welcome the opportunity to provide our input at this stage.

As you will be aware we were strong supporters of the changes to the charging methodology you proposed for England Wales and which will effective from April of this year. 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.

These three criteria are equally important in developing an appropriate GB charging methodology and consequently we will continue to use as the benchmark for any changes to the current methodology.

We would agree with your proposal that on this basis the current methodology should form the starting point for any evaluation of an appropriate GB charging methodology. The benefits provided by a 'very shallow' connection charging policy and use of system tariffs derived from a DC load-flow model provide the benchmark by which any alternative should be evaluated.

However, in developing the charging methodology for England and Wales, it was necessary to make several key assumptions based on data and analysis of the specific features of the England and Wales system. The impact of the choosing different assumptions within the methodology can be very large and furthermore, it is not clear that these assumptions are directly relevant for a GB system without further detailed analysis. Some of the key assumptions we would consider it necessary to review include;

- The use of, or choice of Security Factor
- The Generation/Demand charging split
- Under-Utilised lines
- The value of assets moved into the GB charging base and the relevant split of connection and infrastructure.

The value-added by the industry-wide collaborative approach adopted in the review of charging in England and Wales suggests that a similar process could provide significant benefits not only in terms of the quality of discussion and analysis but also in terms of increasing transparency and level of understanding of transmission charging issues across the industry.

As mentioned above if any changes to the charging methodology were to gain our full support, they would need be firmly grounded in the basic economic principles of cost reflectivity and in particular marginal cost pricing. As your indicative TNUoS tariffs suggest, the application of the current methodology to a GB wide system could produce charges for generation that are significantly higher in Scotland than other areas of England and Wales and also a significant increase in all demand tariffs. There will undoubtedly be some sensitivity surrounding such results and a resulting reluctance to accept an unconstrained marginal cost approach to pricing. If it is considered to be desirable to 'move away' from what would our favoured approach to achieve wider political, socio-economic or environmental objectives we would expect any case to be presented for a full regulatory impact assessment of such changes to attempt to evaluate their true economic benefit.

Again, thank you for the opportunity to comment on your initial thoughts at this early stage and trust that you find the above comments useful. We look forward to working closely with yourselves and other industry members in evaluating an appropriate GB charging methodology over the coming months. 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