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Tom Ireland  
Electricity Charging and Access Development  
National Grid Electricity Transmission plc  
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CV34 6DA

28 August 2008

Dear Mr Ireland

### **GB-ECM11 Charging Arrangements for Generators Local Assets**

Welsh Power continues to believe that of the two remaining charging options, the specific treatment of generation connection would be the best option. We believe that it meets the applicable objectives, notably by facilitating competition in generation and cost reflectivity. We also believe that a time when a lot of new generation wishes to connect to the transmission system its transparency will help smaller, new generators access the GB electricity market.

As outlined in our previous response, we believe that the specific treatment of generation connections has the advantage of being easy to understand and is consistent with the “Plugs” principles of shallow connection charging that underlie the charging methodology. Charging the generator for its share of the local assets required for connection, rather than for the full costs that may be significantly higher, given the chunky nature of the investment, the age of some assets, etc., help generators understand the basis for connection. The charges are also more likely to appear a “reasonable” reflection of the costs of connection.

For the larger pieces of investment that are required, charging on the basis of the marginal costs of connection, rather than full cost, will be more appropriate and encourage new generation at a time when the GB market has a falling plant margin.

The marginal cost approach would also recognise the different costs of connections, keeping the element of cost reflectivity, and dealing with complex connections as well more simple investments.

For expansion factors, we believe these should be localised to reflect the actual connection in question, rather than based on a single factor. However, we are concerned about potential volatility in some areas and are not convinced RPI is an appropriate inflation factor, though understand why it is chosen.

Welsh Power does not support option B, distance to zonal hub, as we believe it is too complex for users and therefore reduces transparency in charging. While the methodology removes the requirement to identify “local assets”, we do not feel that setting of the various factors needed drive the model risks creating results that the generator cannot challenging and may also not be very cost reflective. Recent work on the TAR modifications also suggests that identifying nodes may also be rather arbitrary. It also moves to a “deeper” connection charge than the current regime.

Welsh Power is concerned about the way that this proposed change in charging will impact on the modification that are being discussed as part of the transmission access review. It is too early to tell which modifications, or alternatives, will be adopted. However, at the present time we believe Option A will be most likely to sit with a new access regime. It would also appear to be the least complex change against a background of significant uncertainty for generators.

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

Yours sincerely

A handwritten signature in black ink that reads "Rebecca Williams". The signature is written in a cursive, flowing style.

Rebecca Williams  
Head of Trading