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**Re: Pre-Consultation Document, GB ECM-11 – Charging Arrangements for Generator Local Assets**

Dear Tom,

Centrica welcomes the opportunity to comment on the pre-consultation document concerning the charging arrangements for generator local assets.

As this document highlights various charging methodology options that will substantially change the current charging methodology, it is essential that the full impacts and effects of each option are analysed in sufficient depth before any one proposal is put forth in the consultation document. Furthermore, any option resulting from GB ECM-11 should be an enduring solution able to support any developments resulting from the Transmission Access Review (TAR) and any proposal put forth for offshore transmission charging. Specifically, this means that the incentive or signal provided to generators for connecting at different standards should not become diluted or 'perverse' when additional industry developments are incorporated in the charging methodology.

Centrica would also like to highlight that no consideration has been given to embedded generation, in particular BEGAs who currently pay TNUoS charges. To re-emphasise, all impacts and aspects of charging need to be properly assessed before any options are narrowed down. As more analysis is required, Centrica cannot at this point provide a preliminary preference for any option and instead provides individual views and comments for each of the options and sub options.

**Option 1 – Specific Treatment for Generation Assets**

*Generator only vs. marginal investment*

When determining the asset investment that is required for a particular generator to connect, the marginal investment approach seems preferable as it can better incorporate complex circuit designs that are shared. While the marginal investment approach still necessitates the use of a proxy, it is more cost reflective than the generator only approach in regards to more complex connections and is thus a more enduring solution.

### *Applicable voltages*

To be consistent with any developments resulting from TAR, it is sensible and consistent to have local asset charging applicable across all voltages. To have a local asset charge for only one type of voltage and not others will mean two different charging methodologies for different voltages, which does not treat all users consistently. This in itself can be complex to maintain in the future. Hence, all voltages should be considered in local asset charging.

### *Local expansion factors*

In the interests of cost reflectivity Centrica favours reducing the cost variance of local expansion factors. For geographic region, the generation zone is the favoured criterion. Since the 'wider' charge will still be based on generation zones it is sensible that the expansion factor is specific to that zone.

For circuit criteria, Centrica favours all three of the options mentioned as all seem to propose valid and marked cost differences. As long as the cost categories for circuits are large enough so that the data is easy to retrieve while at the same time meaningful cost variations are highlighted across the different connections (at different voltages, designs, and security levels), then every attempt should be made to incorporate these cost variations.

Centrica believes that cost reflectivity is an important target in this pre-consultation, since the ultimate objective of the local asset charge is to identify the 'local' costs and thus savings for those users connected at a lower standard. As the industry has already spent considerable time on trying to identify the correct methods for identifying these 'local' asset savings, none of which were viable, cost reflectivity should remain the priority as long as relevant cost differences are easily attainable.

### *TEC or CEC*

Under the prospect of future short term access products it is more cost reflective to base the local asset charge on CEC or on a level greater than TEC defined in a new "Local Connection Capacity" limit. Connecting users to the system even for a short while requires certain connection assets to be installed, therefore short term users should pay for this cost accordingly. Due to this, Centrica supports the use of CEC or a new "Local Connection Capacity" limit because it ensures that all costs are appropriately aligned to specific users, under current and future access regimes.

## **Option 2- Specific Treatment of Distance to Zonal Hub**

### *Local expansion factors*

Centrica favours the volume weighted zonal average approach, for a generation zone. This approach seems to be most consistent with the current methodology.

### *Local security factor*

Centrica would favour using the Seculf model to calculate the local security factors as it is the most cost reflective. However, it is appreciated that it may be difficult to make the Seculf model transparent to users. If Seculf model transparency is too difficult to overcome, then using simplified assumptions is the next logical acceptable choice.

### *Selection of zonal hub*

In using the generation node with the lowest marginal cost approach, inherently the local asset charge for generation at this node will be zero. From the examples provided in the document, Centrica is not convinced that the full cost of local assets for this generation node will be picked up by the generator via the 'wider' charge it will pay. Further detailed examples need to prove this point exactly.

Due to this Centrica favours the demand cost weighted average for all nodes with demand within the generation zone approach.

Before the substation asset local charge is considered, it is questionable if Option 2 provides enough of an investment signal. Referring to Appendix 2 Example 1 it is stated that if generator D is double circuit connected, its local asset charge would increase by £0.57/kW. When comparing this to the Option 1 Appendix examples, Option 1 seems to highlight larger connection circuit differentials, which promotes Centrica's query on the strength of signals in Option 2. Also, as generator E's net TNUoS charge goes down by £1.03/kW, the question remains if its local assets costs are indeed picked up in their relevant 'wider' charge.

### **Substation Assets**

Centrica agrees with the calculation of specific local substation asset costs so that a £/kW substation charge is included (or added to) in the local asset charge element.

Specifically, Centrica favours calculating the cost of substation assets on a zonal basis as this is most cost reflective. Getting close to the 'true' costs of assets will inherently provide the most accurate investment signal in charging. This is seen to take precedence over volatility in substation asset costs as previously proposals have been vetoed over concerns about cost reflectivity.

Centrica's second preference would be for costs calculated on a TO region basis and has no third preference as it does not support the GB basis.

### **Option 3 – Deepening of the Infrastructure/Connection Asset Charging Boundary**

At the present time Centrica does not support the use of deeper connection charges. While some options for the basis of a connection asset sharing methodology are mentioned, without some detailed examples of worked methodologies it is difficult to properly assess the true benefits and disadvantages on users. In addition, the effect of the TAR proposals on deeper connection charging is also unclear. As a final point, unless the industry is committed to participating in the creation of valid connection asset sharing methodologies, the progression of this charging option will be a defeating task.

### **General Concluding Comments**

This pre-consultation raises many variations to the current use of system charging methodology which if/when implemented will change the charging methodology considerably. While Centrica appreciates the work and analysis already provided in the document and specifically in the appendices, we feel more analysis and in particular more comparisons are needed before only one method is put forth in the consultation.

For example, one or two generation zones should be used for each option whereby actual data is used from existing generators to generate the new tariffs (which sub options are chosen should be guided by the pre-consultation responses). These tariffs for the various generators within the zones could then be directly compared to the current tariffs they pay associated with their current zones. This comparison is important, while it does not necessarily compare 'like for like' (as the methodologies *are* different), it does compare the 'new' to the 'old' world and hence clearly makes transparent the difference in charges. Revealing this reality of the impacts will make it easier to ascertain whether the proposed methodology indeed promotes the correct connection/location signal to an appropriate degree. (Comments made here do not necessarily apply to option 3 as this option promotes a fundamental change to the charging methodology which warrants separate analysis with industry support.)

Furthermore, Centrica would also like to reiterate that the effect on embedded generation (i.e. BEGAs) needs to be considered and detailed in the options before any decision for a proposal is made. Currently no official decision has been made on the offshore charging methodology but as an extension to the comments made here, when GB ECM-11 is ready for consultation extending the charging methodology and impact analysis to an offshore zone (i.e. a sample offshore generator) would be very useful as well.

Despite the fact that more detailed analysis is being requested to properly assess the impacts of GB ECM-11, Centrica feels that this is inevitable as the charging methodology will become more complex and detailed. As more industry future developments become clear (i.e. TAR proposals, offshore charging) numerous 'piecemeal' changes to the charging methodology which try to satisfy all users should be avoided. This substantiates the need for proper due diligence to be performed so that an enduring charging methodology will result.

The 'new' charging methodology should also be transparent enough so that industry participants can (easily) replicate the methodology for their own analyses. If this is achieved then even complex methods can be incorporated in charging. Both Option 1 and 2 have complexities, but Option 1 appears to be more transparent and is thus better able to promote understanding of these complexities, while at the same time being cost reflective.

Should you have any questions regarding the comments in this response please do not hesitate to contact me.

Yours sincerely,

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