RWE Innogy

RWE Innogy Comments on
UoSCM-M-11 Consultation
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Introduction of Year Round TNUoS charges

The following comments are made on behalf of RWE Innogy plc, Innogy Cogen Ltd., Innogy Cogen Trading Ltd., npower Ltd., npower Northern Supply Ltd., npower Yorkshire Supply Ltd, npower Northern Ltd, npower Yorkshire Ltd.

1. RWE Innogy supports the introduction of Year-Round TNUoS charges as proposed in UoSCM-M-11 subject to the provision of a satisfactory revised draft to the Statement of Use of System Charging Methodology that separately identifies the changes relating specifically to UoSCM-M-11. The modification would better target the infrastructure costs related to non-peak conditions on users of the system at the time these costs are incurred. It would therefore better facilitate the objective of charges that reflect, as far as reasonably practicable, the costs incurred by National Grid in its Transmission Business.

2. If the vast majority of year-round costs are incurred between 0700hrs and 1900hrs then a charge applied between these hours would be a cost reflective application of a year round charge. However, if a significant proportion of the year-round costs are also incurred between 1900hrs and 0700hrs then it may be more appropriate to apply the commodity charge to all metered volume, particularly since this would carry the additional benefit of simplifying billing processes. Greater transparency in the year-round costs is therefore required to support National Grid's assertion that the vast majority of year-round costs are incurred between 0700hrs and 1900hrs.

3. The recovery of 10% of TNUoS revenue from a year-round charge is appropriate based on National Grid's analysis over a ten year period of the proportion of infrastructure costs related to non-peak conditions. The intention to review this level for each Price Control Period would seem reasonable if the level is believed to be fairly stable.

4. A rolling monthly billing and reconcilliation process based on outturn settlement data is appropriate with respect to administration, predictability, credit risk management and consistency with the peak-related tariff process.

5. It is appropriate to levy the year-round charge in the same proportion as peak/ capacity based TNUoS charges. To do otherwise would alter the 27:73 ratio for generation and demand respectively. Whilst it may be appropriate to review this ratio in the context of European developments, any such fundamental change would have to be subject to a separate consultation.

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6. It is important to recognise that year-round costs are locational in nature, although the locational nature of these costs may be different to those associated with the peak. A model to derive the locational nature of year-round costs must be developed to improve further the cost-reflectivity of the year-round charge. We do not agree that the avoidance of additional complexity is adequate grounds on which to dismiss this development. A locational commodity charge would achieve consistency with the peak-related tariff in reflecting the marginal costs of investment. It would also increase the transparency of the year-round costs, thereby facilitating the review of the 10% level. Until a model is developed to reflect accurately the locational nature of year-round costs, a flat commodity charge as proposed in UoSCM-M-11 is an appropriate interim solution. Nevertheless, it was National Grid's conclusion to the Within-Year Tariff consultation that a locational commodity charge (Strawman 3) would provide the most appropriate incentives. We therefore expect a commitment from National Grid to develop a locational commodity charge.

7. We agree with National Grid and OFGEM that an appropriate mixture of TO and SO incentives is essential to ensure the most efficient combined planning and operation of the system. We also agree that the introduction of the year-round tariff does not affect this situation. However, there remains reasonable doubt over whether the inclusion of all capital expenditure relating to voltage support in the TO rather than the SO incentive is appropriate. Inclusion of this capital expenditure in the SO incentive would ensure that the cost of providing voltage support from competing sources is subject to the same incentives in their procurement. As OFGEM recognised in its Dec 2002 NGC incentive schemes consultation, interchangeable expenditure should be subject to the consistent incentives to facilitate economic trade-off of such costs and avoid perverse interactions between incentive schemes.

8. The cost of incorporating the change in charging basis into customer billing systems will be considerable. A re-billing procedure will almost certainly be necessary as there will not be sufficient time to implement the required system changes before the new charging structure takes effect on 1 April 2004. The associated costs must be given due consideration in an overall cost benefit analysis of UoSCM-M-11.