

Moyle Interconnector Limited
Response to GB Transmission Charging: Final Methodologies Consultation

1. **Executive Summary**

Moyle Interconnector Limited (“**Moyle**”) is strongly supportive of the proposed final methodology in respect of Ownership/Connection Boundaries set out in section 4.1.1 of the GB Transmission Charging: Final Methodologies Consultation Paper dated 20 August 2004 (the “**Consultation Paper**”). Our reasons for this include:

- (a) the proposed final methodology is consistent with the current England and Wales connection charging methodology and therefore it is essential that this be adopted in the final charging methodology for Great Britain. Any other approach would result in connection applicants in different parts of the Great Britain system being treated differently on a completely arbitrary basis in breach of Directive 2003/54/EC of the European Parliament and Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC (the “**Directive**”);
- (b) the connection charging methodology which currently applies in England and Wales was adopted for very good reasons which apply equally in Scotland, including simplicity, transparency, long term robustness, improved contestability of maintenance and facilitation of competition.

In addition, if a “clean break” approach to existing Scottish connections is to be adopted, which we understand was proposed by licensees and is supported by Ofgem, transparent and unambiguous mechanisms must be established to enable connected parties in Scotland to obtain appropriate rebates to which they are entitled in respect of capital contributions paid for existing connection assets which are subsequently reclassified as infrastructure.

However, Moyle is not supportive of the manner in which it is proposed that use of system charges will be levied on transmission connected interconnectors. The current England & Wales use of system charging methodology, which we understand is proposed to be extended to Scotland has materially different impacts on the Moyle interconnector than it had on the principal transmission connected interconnectors in England & Wales. Moyle is typically a net exporter of electricity from Great Britain while the Anglo-French Interconnector is typically a net importer of electricity, a fact which is acknowledged in section 4.2.1 of the Consultation Paper.

The proposed use of system charging methodology materially prejudices intermittent imports of electricity to the point that it will not be economically feasible in the short to medium term to import electricity across the Moyle interconnector. This is a barrier to trade and should be addressed by either:

- (a) preserving Moyle’s current use of system charging arrangements pursuant to which it pays the higher of import and export use of system charges only; or
- (b) treating Moyle in the same way as embedded generation or small scale transmission connected generation.

2. **Non-Discriminatory Approach to Connection Charging**

We understand that the ownership boundaries will be established in the Bilateral Connection Agreement in line with the shallow connection boundary implemented in England and Wales from 1 April 2004. Under this methodology, we understand that the connection/infrastructure boundary would normally fall at the first transmission owned substation, with all shared or shareable assets falling outside of the connection boundary and that the application of this methodology for the identification of connection assets in Scotland will, in many cases, result in a much shallower connection boundary than is currently employed.

The Consultation Paper states that “whilst not explicitly stated in the current England and Wales charging methodology, a similar rule for demand spurs exists and is being applied, which states that the appropriate length for the connecting circuit is 2km. We see no reason why such a rule is not equally applicable to generation connections.”. However, we note that in Paragraph 1.5 of the National Grid Statement of the Connection Charging Methodology effective from 1 April 2004 clearly states that “following National Grid’s extensive Charging Review, the Authority approved a further change to implement a shallow single user boundary definition with no spurs retained within connection”.

Moyle strongly supports National Grid’s proposal that on a Great Britain basis, any connecting circuit greater than 2km in length and at a transmission voltage should be infrastructure and outside of the connection boundary. This is consistent with the current England and Wales connection charging methodology and therefore it is essential that this be adopted in the final charging methodology for Great Britain. Any other approach would result in connection applicants in different parts of the Great Britain system being treated differently on a completely arbitrary basis. This would amount to discrimination in breach of Article 20.1 of the Directive.

Furthermore, for National Grid to apply a different connection charging methodology in Scotland and England and Wales would amount to a breach of National Grid’s obligations as transmission system operator under Article 9(e) of the Directive in relation to ensuring non-discrimination between system users or classes of system users.

3. **Simplicity, Transparency, Robustness and facilitation of Competition**

National Grid has expressed the view in the Consultation Paper that the shallower connection boundary based on single user assets which received regulatory approval of the methodology in December 2003 has a significant number of advantages over the previous arrangements (and the current Scottish arrangements) including:

- (a) simplicity;
- (b) transparency;
- (c) long term robustness;
- (d) improved contestability of maintenance; and

- (e) it better met the relevant objective regarding the facilitation of competition.

Moyle agrees with the view expressed by National Grid in the Consultation Paper that to the extent that these conclusions were correct in England and Wales, they are equally applicable to Scotland. Therefore, Moyle is strongly of the view that the shallow connection charging methodology proposed in the Consultation Paper ought to be adopted in Scotland for all of the reasons that it was determined that it should be adopted in England and Wales.

4. Clean Break Approach

Finally, it is critical that if a “clean break” approach to existing Scottish connections is to be adopted, which we understand was proposed by licensees and is supported by Ofgem, transparent and unambiguous mechanisms must be established to enable connected parties in Scotland to obtain appropriate rebates to which they are entitled in respect of capital contributions paid for existing connection assets which are subsequently reclassified as infrastructure.

Furthermore, it is critical that to the extent that rebates are paid in respect of assets that remain classed as connection assets, that the rebates received are equivalent to any upfront payment of connection charges to National Grid. It is not acceptable that any connected party be put in a situation where it receives less by way of return of capital contributions for connection assets from Scottish licences than it has to pay to National Grid by way of capital contribution in respect of the same assets.

In these circumstances, it would be clearly preferable for connected parties to simply elect to have their connection assets treated as if they were paid for in full and have any financial adjustment necessary made between NGC and the relevant Scottish licensee.

5. Use of System Charges

Section 3.3 of the Consultation Paper states that in England & Wales, TNUoS charges are applicable to both generation and demand and are levied on suppliers, generators and interconnector asset owners. It is implicit in this that interconnector asset owners may be liable to both generation and demand charges if they both import and export electricity. It is further understood that it is proposed to adopt this approach under BETTA. However, pursuant to Moyle’s current use of system charging arrangements, it only pays the higher of import and export use of system charges.

Moyle is not therefore supportive of the manner in which it is proposed that use of system charges will be levied on transmission connected interconnectors. As a result of the nature of the usage of Moyle, the proposed BETTA use of system charging methodology will have a material adverse impact on Moyle, which it does not have on the Anglo-French Interconnector. The reason for this is that Moyle is typically a net exporter of electricity from Great Britain while the Anglo-French Interconnector is typically a net importer of electricity, a fact which is acknowledged in section 4.2.1 of the Consultation Paper and is reflected in the way that it is proposed to model each interconnector for charging purposes.

The proposed use of system charging methodology materially prejudices intermittent imports of electricity to the point that it will not be economically feasible in the short to medium term to import electricity across the Moyle interconnector. This is a significant barrier to trade and the charging methodology should be modified to ensure that this does not occur. Moyle is strongly of the view that the most appropriate way of doing this is to preserve its current use of system charging arrangements pursuant to which it will pay the higher of import and export use of system charges only.

Alternatively, it should be recognised that Moyle will only be offered a TEC of 80MW, which will at most offset a small amount of the normal flow in the transmission system in the south west of Scotland. As a result, any import of electricity into Great Britain up to this limit is unlikely to have any impact whatsoever on the Scottish system in terms of necessary reinforcements. In this respect Moyle is similar to embedded generation or small scale transmission connected generation and should certainly not be treated in a manner which leaves it any worse off than such generation.

We understand that embedded generators who are not capable of exporting 100MW or more to the total system are not liable for TNUoS charges at all and small scale transmission connected generators pay reduced TNUoS charges. We also understand that the same charging methodology will apply to generation connected to the 132kV transmission network in Scotland with a capacity less than 100MW (i.e. those parties whom on the basis of size would not be liable for TNUoS if they were distribution connected).

We understand that the rationale for this is that embedded generation and small scale transmission connected generation is unlikely to generate sufficient electricity to require material network upgrades and therefore do not justify payment of full TNUoS charges. Given Moyle's TEC of 80MW and the nature of the transmission system in the south west of Scotland, no such network upgrades would be required and therefore it is not appropriate that Moyle should pay both generation and demand TNUoS. In this respect, it is strongly arguable that Moyle should be treated as embedded generation and exempted from payment of TNUoS altogether.

If Moyle is subject to payment of both demand and generation TNUoS as is currently proposed, this will effectively eliminate the possibility of imports of electricity from Ireland to Great Britain in the foreseeable future. Facilitation of cross border trade is a fundamental principle of both the Directive and Regulation 1228/2003 on cross border exchanges in electricity (the "**Regulation**") and a charging methodology which has the practical effect of eliminating any such trade cannot be viewed as being consistent with the spirit or intent of either the Directive or the Regulation.