

Consultation on re-submitted Modification Proposal

Modification Proposal to the Use of System Charging Methodology

UoSCM-M-09

Consultation on Conclusions Report for UoSCM-M-06:

Proposal to use new capacity term as introduced by CAP043 CUSC amendment for Generation TNUoS charges

7 February 2003

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1. INTRODUCTION

Paper UoSCM-M-06 set out for consultation National Grid's proposal to modify the Use of System charging methodology, changing the generation Transmission Network Use of System (TNUoS) charging basis to utilise the Transmission Entry Capacity (TEC). This modification proposal was, therefore, dependent on the implementation of the CAP043 CUSC amendment. Both the CAP043 amendment and Charging Modification UoSCM-M-06 were before Ofgem for consideration at the same time. As Ofgem were not certain that they would be in a position to approve or reject the CUSC amendment before the expiry of the 28 day veto period associated with the Charging Modification, Ofgem vetoed the Charging Modification.

Subsequently, Ofgem has approved the CAP043 CUSC amendment. As the proposed modification outlined in this report is identical to that proposed in UoSCM-M-06, aside from a minor amendment to the proposed new methodology text, National Grid requested that Ofgem allow a shorter consultation period in accordance with Condition C7A3(d) of the Transmission Licence. This request was approved by Ofgem, who have directed that the conclusions report be re-submitted to Users for a consultation period of 2 working days.

This report describes the terms of the proposed modification and discusses the responses to the original modification proposal UoSCM-M-06. The responses from Users are included in Appendix 1 to the report, and the proposed new text for the Statement of Use of System Charging Methodology, which is only changed from that included in the original proposal by a simplification of the data requirements section in Chapter 6, is included in Appendix 2. Users are therefore requested to forward any additional comments to National Grid before the closure of the consultation at **12:00 midday on Tuesday 11th February 2003**.

National Grid will then include any further representations made by Users in a conclusions report for UoSCM-M-09 (which will include the representations made in response to UoSCM-M-06), outline any changes made to the original proposal in light of those responses and include a confirmation of the timetable for implementation of the modification. Users should note that Sections 2, 3, 4, and 5 of this report are unchanged and therefore refer to CAP043 as a proposal. As CAP043 has now been approved by Ofgem, Users should draft any additional responses in light of this fact.

It is proposed that this modification would better meet the Relevant Objectives in Licence Condition C7A 5 (a), (b) and (c) as listed below under (iii) a, b and c. In addition, an alternative method for determination of charges in negative tariff zones was proposed.

National Grid is obliged under the Transmission Licence:

- (i) to make revisions to the Charging Statements in order that the information set out in these statements shall continue to be accurate in all material respects;
- (ii) to keep the Use of System Charging Methodology at all time under review;
- (iii) to make such modifications of the Use of System Charging Methodology as may be requisite for the purpose of better achieving the relevant objectives, which are:

- a. to facilitate effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- b. to result in charges which reflect, as far as reasonably practicable, the costs incurred by National Grid in its Transmission Business; and
- c. to take account of the developments in National Grid's Transmission Business.

2. TERMS OF THE ORIGINAL PROPOSED MODIFICATION

Description of proposed modification to the Use of System Charging Methodology

The proposed modification to the Use of System Charging Methodology is to use a new capacity term, as introduced by the CAP043 CUSC amendment, for Generation TNUoS charges. The modification also proposes an alternative method for determining charges in negative tariff zones.

Explanation of the issue

If the CAP043 CUSC amendment is implemented as currently proposed, it is proposed to adopt the TEC measure to determine generators' and interconnectors' charges in positive tariff zones, and to cap payments to generators and interconnectors in negative tariff zones. It is assumed that the TEC would be net of Station Load, and of Additional Load for power stations with an Export Limiting Modification as agreed with National Grid. The TEC used for charging purposes will be the highest TEC prevailing in the Financial Year. If this modification proposal is accepted, then it would be implemented in April 2003.

It is proposed that the basis for calculating the charges paid to generators and interconnectors in negative tariff zones will be changed such that it is based on the average of the monthly maximum output in a Settlement Period for each of the months November to February inclusive. If the CAP043 proposal is accepted, the generator's (or interconnector's) TEC will be used to cap the highest volume in each month as used to determine the negative generation charge.

TEC will also be used as input data to the Transport Model for the purposes of calculating generation TNUoS tariffs from April 2004. For the tariffs for the Financial Year 2003/04, Registered Capacity will be used as the input data, as at the time of tariff setting the information on TECs for each generator and interconnector will not be available.

Justification for proposed modification

The proposed modification would better meet the Relevant Objective in Licence Condition C7A 5a to facilitate competition in generation and supply in the following way:

- By charging generation TNUoS charges on the clearly defined entry capacity product proposed in the CAP043 amendment proposal.

The proposed modification would better meet the Relevant Objective in Licence Condition C7A 5b to reflect the costs incurred by National Grid in its transmission business in the following way:

- By utilising a new capacity measure which defines the transmission system entry rights for generators and interconnectors.
- By better reflecting the impact of generation located in negative tariff zones on transmission costs.

The proposed modification would better meet the Relevant Objective in Licence Condition C7A 5c to take account of developments in the transmission business in the following way:

<ul style="list-style-type: none"> • By reflecting the changes to CUSC caused by the CAP043 amendment proposal.
<p>Suggested alternatives</p> <p>None have been identified.</p>
<p>Implementation date</p> <p>1 April 2003.</p>
<p>Proposed changes to the Statement of the Use of System Charging Methodology</p> <p>It is proposed that the Statement of the Use of System Charging Methodology be modified in line with the agreed methodology. The majority of changes to the methodology would be in Chapter 5 which describes Generation TNUoS charges (see some suggested text for Chapter 5 of the methodology in line with the initial proposal is shown in Appendix 2).</p>
<p>Proposed changes to the Statement of Use of System Charges</p> <p>This will depend on how different user's TECs are from their current chargeable GC less station demand (and agreed additional load). It is anticipated that differences will be relatively small, and therefore the impact on the Statement of Use of System charges will be relatively small.</p> <p>The Statement of Use of System Charges will be updated with the new tariffs which are required to be delivered with 2 months notice to Users. National Grid has given Ofgem 150 days notice of its intention to amend Use of System charges as required by the Transmission Licence.</p>
<p>Impacts on other Industry Documents</p> <p>None have been identified.</p>

3. RESPONSES TO THE MODIFICATION PROPOSAL (UoSCM-M-06)

Comments and views were invited on all the issues raised in the original Modification Proposal by 9 December 2002. National Grid received 10 responses, which are included in Appendix 1. Of these responses, four broadly supported the proposed modification with regard to the use of TEC for charging purposes in the event that the CAP043 CUSC amendment is approved and implemented. However, all of the responses in favour of the modification indicated that they were either not in favour of the CAP043 CUSC amendment, or had some reservations about CAP043. One response, whilst in favour of the modification in principle did not feel that the definition of TEC had been sufficiently agreed within the CAP043 CUSC amendment process.

One of the respondents in favour of the adoption of TEC was not in favour of the change to the treatment of generators in negative charging zones, and expressed the view that the charging methodologies should not require that a generator export during specific periods, and that the current method is sufficient to provide evidence that capacity is available to generate.

Six responses were opposed to the modification proposal. A number of these were opposed to the change on the basis that they were opposed to CAP043 in general. One response did not feel that charges should be based on TEC even if CAP043 is approved, and that charges should continue to be based on GC as defined in the BSC. The view was also expressed that the use of TEC for TNUoS charging would not be more cost reflective as it would be a less precise descriptor of a party's use of the system. With regard to the proposed modification for negative charging zones, the view was expressed that the proposal did not demonstrate availability, and detracted from rewarding generation in such zones at times when the output is most needed. It was also suggested that this proposal should have been part of a separate modification.

One of the responses thought that the drafting of the modification was insufficient, and that charges should only be made for the period for which capacity is requested and made available. This respondent also expressed the view that the proposed modification to charges in negative zones as the proposal is arbitrary, provides no stronger incentives and is inconsistent with the measure of peak conditions.

Another respondent's view was that TNUoS charges should be based on a generator's use of the network, rather than on the generator's forecast of intended usage. On the basis that demand TNUoS charges are based on actual usage, this respondent's view was that the modification was potentially discriminatory.

During the consultation process, a number of users requested clarification on the use of TEC for setting tariffs. National Grid issued an additional information note which explained that for Financial Year 2003/04 National Grid would use the existing methodology for the purpose of setting zonal TNUoS tariffs, as at the time when tariffs are set, TEC figures for each generator and interconnector will not be available. Charges would be levied on the basis of TEC in Financial Year 2003/04. Tariffs would then be set on the basis of TEC for Financial Year 2004/05.

4. CHANGES TO THE PROPOSAL IN LIGHT OF REPRESENTATIONS MADE

National Grid would like to take this opportunity to respond to a number of the comments made by respondents. With regard to reservations expressed concerning the CAP043 CUSC amendment itself, these issues are more appropriately addressed as part of that process, and will not be discussed in any detail in this report.

One respondent could not support the proposal on the grounds that they believed more time should be allowed to consider and assess the implications of CAP043, and also therefore to assess any related changes to the Charging Methodologies. As mentioned above any issues associated with the CAP043 cannot be addressed in this report, and furthermore it is National Grid's view that the timing and duration of consultation for this modification to the Charging Methodology is appropriate.

The respondent also suggested the implementation timetable for both CAP043 and this proposal should be reconsidered in light of the developments in BETTA and Transmission Access. Under the Transmission Licence National Grid is required to keep the Charging Methodologies in England and Wales under constant review and to bring forward modifications which better achieve the relevant Licence objectives. National Grid is discharging this obligation by making this proposal to change the Use of System Charging Methodology, and any interaction with Transmission Access or BETTA, are more appropriately addressed as part of those processes, and cannot be discussed in this report.

In response to the issues raised with regard to the proposal for negative charging zones, National Grid believes that the proposed method does better meet its licence objectives by better reflecting the impact of generation in those zones on transmission investment. The current method, whilst providing some evidence of a generator's ability to generate over the winter period, does not provide sufficient incentive for such generation to be available over the period that is the main driver of transmission costs. Indeed, evidence from previous years has shown that some generators have generated in only one month of the winter period, and yet have received substantial TNUoS payments. National Grid does not believe that cases such as this provide sufficient evidence of a generator's beneficial impact on transmission system costs. The proposed method would at least ensure that generators would be required to generate in each month over the period when peak demand, the main driver of transmission investment, can occur. Those generators who genuinely do contribute to reduced transmission costs by generating through the winter period would be relatively unaffected by the proposed change.

With regard to the use of TEC for the purposes of charging, National Grid's view is that this would be more cost reflective. Following the implementation of the CAP043 CUSC amendment, TEC will be the measure used for the purposes of transmission planning, and so there will be a direct link between TEC and transmission investment costs. TEC would show the annual capacity required by that generator, which the transmission system has to provide.

With regard to the view that the modification should allow for charging only for the period for which capacity is available, National Grid's view is that capacity is currently defined as an annual product, for which it is appropriate to charge for the full year. Any subdivision of capacity product into sub-annual rights is a matter which is more properly addressed in further development of the capacity product in the CUSC,

rather than through the charging methodologies, as it would have consequent effects on monitoring, settlement and provisions for changing capacity within a year.

With regard to the view that generation TNUoS charges should be based on usage rather than capacity, National Grid believes that it is appropriate to levy generation TNUoS charges on the basis of capacity. National Grid's transmission costs are driven by the capacity required by users of the transmission system. Where a generator has defined his required capacity at a certain level, National Grid is obliged to provide that capacity or compensate if it is not available, regardless of whether the user makes use of it.

National Grid does not agree that the different approach for generation and demand TNUoS charges is unduly discriminatory. Generation and demand do not compete directly with each other, and therefore there is no distortion of competition caused by different treatment. In any case, demand users are charged TNUoS on the basis of a proxy for their peak capacity requirement, and are therefore, like generation TNUoS charges, capacity based rather than usage based.

In light of the responses received National Grid does not propose to make any changes to the proposed modification summarised in Section 2, namely:

Generation TNUoS charges for a generator or interconnector in a positive charging zone would be based on the highest Transmission Entry Capacity (TEC) applicable to that generator or interconnector in the Financial Year. Generation TNUoS charges for a generator or interconnector in a negative charging zone would be based on the average of the maximum metered volumes in a settlement period in each month between November and February inclusive. The metered volumes for each Settlement Period will each be capped by the TEC of the generator or interconnector applicable in that Financial Year.

5. HOW THE PROPOSED MODIFICATIONS BETTER MEET THE RELEVANT OBJECTIVES

The proposed modifications would enable the charging methodologies to better meet the relevant objectives as set out in the transmission licence conditions C7A 5 (a) to facilitate competition in generation and supply by:

- Charging generation TNUoS charges on the clearly defined entry capacity product proposed in the CAP043 amendment proposal.

The proposed modification would better meet the Relevant Objective in Licence Condition C7A 5 (b) to reflect the costs incurred by National Grid in its transmission business by:

- Utilising a new capacity measure which defines the transmission system entry rights for generators and interconnectors.
- Better reflecting the impact of generation located in negative tariff zones on transmission costs.

The proposed modification would better meet the Relevant Objective in Licence Condition C7A 5c to take account of developments in the transmission business by:

- Reflecting the changes to CUSC proposed in the CAP043 amendment proposal.

6. TIMETABLE FOR IMPLEMENTATION

The original UoSCM-M-06 consultation document proposed an implementation date of 1 April 2003, dependent upon CUSC Amendment Proposal CAP043 being approved and implemented for April 2003.

Following the approval from the Authority for the implementation of CAP043, National Grid has no reason to change the proposed date of implementation for the charging methodology modification proposal. Therefore National Grid proposes that the Use of System charging methodology and the Statement of the Use of System Charging Methodology be modified from **1 April 2003**.

APPENDIX 1 – RESPONSES TO MODIFICATION PROPOSAL (UoSCM-M06)

Response from British Energy

"Further to the above consultation document issued in respect of the above proposed modification, British Energy advise that we SUPPORT the proposal as presented.

In supporting this change to the UoS Charging Methodology (UoSCM), NGC should however note that this support is limited to accepting that this modification is the logical consequential modification required to the UoSCM should CAP043, which we do NOT support, be approved by the Authority for implementation from 1st April 2003. (Specific comments in relation to the CAP043 CUSC Amendment have been provided to NGC in our 5th December response)"

British Gas Trading

"We do not support this proposal at this time. Although, if the CAP043 CUSC amendment is approved we would support the proposal in principle, we consider that the CAP043 CUSC amendment is insufficiently defined at this time.

We believe that the detailed definition of the Transmission Entry Capacity (TEC) should be agreed and published before this proposal can be considered. We therefore suggest that this proposal has been raised prematurely.

In addition, we believe that the consequences for the definition and detail of TNUoS charges following the introduction of any TEC charges needs to be clearly defined and understood before the TEC itself can be introduced."

Response from Deeside Power

"Thank you for the opportunity to provide feedback on the UoSCM-M-06 Consultation Document. My comments are the similar to those submitted in response to the CUSC modification CAP043 consultation which is of course closely linked to UoSCM-M-06. My comments follow:

Deeside currently has half the power station capacity mothballed, due to market conditions that fall short of that required to run a sustainable business and I am very concerned about the proposal to give up the right to TEC if UoS charges are not paid. This is a radical departure from the current system and increases the risks to the power station at a time when the business is already under threat due to unsustainably low wholesale electricity prices. I can not see the justification for removing the TEC if the Connection Charges are still being paid in full, i.e. the power station is paying for the physical assets it uses or has the right to use at the substation. This should be enough to reserve the right to transmission access.

Can NGC reduce capability at a substation if the TEC was not being used for a year or two due to mothballing? If this is the case would the existing connected party not using all of the potential TEC available at the substation be given notice of this decision by NGC? I consider it essential that an existing party be given notice of a new party applying for available TEC at a substation in their area. It can be kept confidential in terms of who that party is but the existing users should have a right to

know so that informed decisions can be made. Is there a cost to the party applying for TEC?

I can not see the justification for a 3 month notice period to reduce TEC given that the market under NETA moves much more quickly than this. It should not be necessary to have a notice period at all but a one week period would be acceptable. Likewise I can not see a need for a notice period to increase TEC. If the market conditions change, which they frequently do very quickly, then a generator should be at liberty to notify NGC and return to generating with the appropriate TEC and paying UoS charges accordingly. 3 months to put an offer together is unrealistic. It should be days, not weeks or months. Otherwise it severely restricts a generators ability to respond to the market.

It should be borne in mind that a mothballed generator will still be paying Connection Charges to cover provision and maintenance of assets (or part assets) for his use at the substation and surely this should give him some preference over a new connection party who has paid nothing.

As a mothballed generator I am concerned that the proposals are radically different to existing arrangements and if implemented will significantly increase risk to the business or costs incurred by the business. The timing is an issue. I consider the proposals should be brought in at a later date to allow businesses to properly budget for or mitigate the risk from the changes resulting from this proposal. We are talking about large sums of money and it is unreasonable for a business that has a budget planning cycle to change too rapidly."

Response from EdF Trading Ltd and EdF (Generation)

"Please find below the response from EdF Trading Ltd and EdF (Generation) on your proposed modification to the Use of System Charging Methodology to implement the changes required for CAP043.

We note that this proposal is a direct consequence of the need to implement CAP043, specifically to reflect the use of the term Transmission Entry Capacity and for it to be the basis for calculating the TNUoS charges. We also note the distinction being made between generators and interconnectors being in either positive or negative charging zones.

As reflected in our response to CAP043 we are supportive of the concept of introducing a new defined term 'TEC', although not of the rules that accompanied the term which defined the access right. The proposal in UoSCM-M-06 only refers to the term and as such could also be supported, but with a similar proviso.

With regards the different treatment for positive and negative charging zones, we support the methodology for negative charging zones and, furthermore, believe that there is merit in it being adopted throughout. Charging an annual rate for potentially one half hour overrun seems penal and not conducive to efficient operation or competition. The averaging over a set period methodology could usefully be adopted for both generation and demand, although we still believe that it is not appropriate to charge interconnectors both. As expressed many times before, it is our contention that it is essentially 'a generator at the border' and that some special treatment should apply, other than one that hinders cross border trade."

Response from Gaz de France

"You will see from our response to the CAP43 consultation that we would prefer more time to be allocated to the development of these proposals, plus reconsideration of the proposed timescale for introduction of any amendment to the Transmission Access arrangements due to the proposed introduction of GB wide arrangements 'BETTA' facilitating the roll out of NETA arrangements into Scotland and introduction of GB wide Transmission and System Operation roles. This view would apply to any current or proposed modification of the Use of System Charging Methodology required to support such amendments."

Response from Innogy

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

Generally the above Parties do not support CUSC Amendment CAP043 since we believe it will not further the CUSC Objectives. In particular we are concerned that the Amendment will positively hinder competition in the generation of electricity. By establishing the proposed quantity TEC as the basis for Generator TNUoS charges we also believe that the charges will become less cost reflective, and that the provision of certain balancing services will be inhibited. We also believe that the manner in which it is proposed to treat station demand is discriminatory.

In Section 3 of the consultation it is proposed that *"a generator's total access to the system is to be defined as a single MW figure"* for charging purposes. Such an approach would be to treat generator demand differently to other demand on the system, since it would effectively treat station demand as negative generation. This raises issues of both cost reflection and discrimination.

It is also suggested that *"TECs would not be significantly different to their current Chargeable GC"*. This statement ignores the practicalities associated with establishing a GC. Because GC can be set at any point during the year it can respond to the system requirements for energy. This is particularly relevant to peaking plant and plant whose output is sensitive to ambient temperature. Using TEC as the charging base would impose significant additional costs and risks on these plants and thus discourage them from producing when the system was under most stress.

The "free" month of March may have been used by NGC to obtain a reconciliation of its charges more rapidly than would otherwise have been the case, but part of its purpose was to facilitate the rotation of generating Units at power stations where some of the Units were mothballed. Rotating two or more Units, which may require their parallel operation for limited periods, assists in reducing the costs of maintaining the Units in a mothballed state and thus contributes towards system security.

The proposal to link TNUoS credits to the average of the highest output established in each of the four months November to February has absolutely nothing to do with CAP043. Strictly speaking this proposal should have been the subject of a separate consultation. It is argued that it will encourage greater availability over the winter months. However, the proposal does not demonstrate "availability" but the maximum output possible in each month. Furthermore the proposal positively detracts from

rewarding generation in negative charging zones at times of low ambient temperature when the output is most needed. The consultation should be clear on the objective of the credit in the charging methodology.

The Justifications given for the proposed modification do not appear to meet the Relevant Licence Objectives as claimed.

First it is claimed that charging a generator on the basis of TEC will facilitate competition. As is pointed out above the nature of TEC, which has to be set 3 months, in advance would positively inhibit competition in the provision of electricity supplies from generation whose output was sensitive to ambient temperature, or had returned from outage. It would also inhibit competition in the provision of balancing services, particularly those provided by low merit plant.

Secondly, it is asserted that the TEC would be more reflective of the costs imposed on the system. Generally TEC will be a less precise descriptor of the use that a generator makes of the system, because it cannot track the system needs of the generator's output in the same way that GC can. It must, therefore, be a less cost reflective parameter on which to base TNUoS charges.

For these reasons we believe that whatever the merits of CAP043 as an improved definition of generator access, it is an inappropriate parameter on which to base generator TNUoS charges. These should remain linked to GC as established under the BSC."

Response from LE Group

"This change will be required if CAP043 is implemented in order to ensure consistency between Use of System charging methodology and Transmission Access rights. We agree that any Transmission Access arrangements will require changes to both the CUSC and Transmission Charging Methodologies. However, we believe that any such changes should be proposed in parallel before consultations have closed under either of the governance arrangements in order to give a complete picture.

We do not support the Transmission Access arrangement proposed by CAP043 and have raised our concerns on this subject in a response to the CAP043 consultation."

Response from Powergen

"I am responding on behalf of Powergen to the above consultation. Although we do not believe that CAP043 should be implemented in its current form, we agree that the changes relating to TEC deliver the intent of CAP043, should it be approved by the Authority.

The change to the rules for negative charging zones appears to contradict the intention of CAP043. The proposed change moves further away from a capacity based charge to a charge based on actual usage of the network. We believe that the original rule requiring the generator to generate three times during the period November to February, was to ensure that there was usable generation capacity at a site which was being paid TNUoS in a negative charging zone. This appears to have been replaced by a requirement to generate during all four months.

We agree with the original rule to ensure that payments aren't made to capacity which cannot use the system. However, requiring that capacity to generate during specific months goes beyond the purpose of Use of System charges, which should be giving signals for capacity to locate in particular areas. If NGC wishes this capacity to operate at a particular time then this should be facilitated through a balancing contract with the party concerned, or through the acceptance of an offer in the balancing mechanism.

We, therefore, do not believe this modification proposal should be made, regardless of whether or not CAP043 is approved by the Authority."

Response from Scottish Power

"Many thanks for the opportunity to consider the consultation document in respect of Use of System Charging Methodology Modification Proposal UoSCM-M-06. This response is provided on behalf of Scottish Power Generation plc and ScottishPower Energy Retail Limited.

Use of TEC

We note and welcome that UoSCM-M-06 proposes to adopt within the TNUoS charging methodology the new terminology (specifically the Transmission Entry Capacity, or TEC) which would be introduced within the CUSC under CUSC Amendment Proposal CAP043. Since TEC is introduced for the specific purpose of defining the volume of entry rights held by the user to access the transmission system, but is not expected to be materially different from the current definition of Chargeable Generation Capacity, we agree that adoption of this term better meets the Relevant Objectives.

Other implications of CAP043

We further note that CAP043 not only introduces new terminology, but also seeks to establish "clear links between the volume of rights held by a user to access the system, the obligation on National Grid to provide firm access for that volume, and the associated payment from the user to National Grid for that right". Scottish Power believes that the current concept of TNUoS being an annual product is inconsistent with the new concept being introduced by CAP043, and needs to be abandoned if the Relevant Objectives are to continue to be met.

In the illustrated case of a generator returning from mothball, the new concept manifests as a retention of the current principle that by notifying National Grid that the access rights previously held are not required for the given year, the generator may take a payment holiday from TNUoS. However, unlike under the current arrangements, under CAP043 the generator would then forfeit the absolute right to return to service and assume the access rights held previously, such that in order to regain those rights the generator must reapply under similar terms to a new connectee, and face similar risks.

CAP043 therefore introduces a subtle change of principle whereby National Grid is only obliged to grant access rights to a given party in relation to continuous time periods for which those rights are paid for in TNUoS, whereas under the present arrangements those rights are notionally available for the duration of their bilateral connection agreement or use of system agreement. We believe that the corollary of

this new principle is that parties should only be liable for TNUoS charges in relation to time periods for which those access rights are made available to the parties requesting them. Hence, if the intention of UoSCM-M-06 is to render the Use of System Charging Methodology Statement consistent with CAP043, then it is our view that further modifications are required to the charging methodology¹, in order to reflect not just the new terminology, but also this change of principle in relation to rights and obligations.

As stated in our response to the consultation on CAP043, we believe that the following principles should be applied in relation to the link between the access rights granted to a user by National Grid and the obligation on that user to pay TNUoS charges to National Grid for receiving those rights:

1. A given volume of transmission entry capacity should only be charged for once in relation to any given time period.
2. This same volume should not be charged for in relation to time periods for which it is neither allocated to a given user, nor available for allocation.

However, under the rules proposed by CAP043 and UoSCM-M06 these principles can break down.

We illustrate this as follows. Consider the instance where one party exits the market and concedes their access rights to a new connectee, who requires the same volume of access capacity, say 2000MW. In this case, the new connectee can be granted their requested TEC without triggering infrastructure investments. The proposed rules accommodate the instance where this transaction is aligned with a new financial year, in that the 2000MW incumbent notifies a TEC reduction to zero from April, and the new connectee requests their initial TEC of 2000MW from April also. Then, National Grid receives TNUoS charges on 2000MW, from the incumbent in relation to the charging year pre-April and from the new connectee in relation to the charging year post-April. However, if this transaction occurs mid-year, then the proposed rules would imply that for the given charging year, both the incumbent and the new connectee are liable for TNUoS charges on 2000MW, such that National Grid double-recovers on the same volume of capacity, despite there being no requirement for additional infrastructure. This is clearly inefficient and not cost reflective, and would be avoided if TEC increases and decreases were possible at any time of the year (subject to the necessary notice period), the trading of access rights between parties was recognised within the CUSC, and TNUoS charging methodologies reflected the part-year nature of National Grid's obligations to each party in such circumstances.

Consider now the example where a given party requests a TEC increase within year. If there is sufficient capacity available for allocation, then this request can be accommodated without triggering infrastructure investments. Under the proposed rules, the party would be charged TNUoS on the higher TEC, on the same basis as if the higher TEC had been applicable for the full year. Hence it is in the party's own interests, and control, to apply for, and be granted, the TEC increase as early as possible in order to gain maximum benefit from the higher TEC, for which they are paying. However, if there is insufficient capacity available for allocation, such that the initial request cannot be granted without triggering infrastructure investment or unless another party surrenders their rights, then the TEC increase will be delayed for a period which may be outwith the party's control. Indeed, in the instance where the party applies for the TEC increase from May but is not granted the increase until January, due to insufficient capacity being available for allocation, then under the proposed rules the party would still be liable for TNUoS charges on the higher TEC

¹ facilitated by further changes to the CUSC, see our CAP043 response.

for the full year, despite this higher level of service being unavailable for the bulk of the time period requested. We consider this to be inappropriate, and inconsistent with point 2 above, and similarly needs to be remedied both within the CUSC and the Use of System Charging Methodology Statement.

We do not believe, therefore, that the proposed drafting of paragraphs 5.5 and 5.6 of the Use of System Charging Methodology is adequate. The drafting, for both generators and interconnectors, should apply charges only on the capacity which was made available, for the period for which it was made available, recognising that this period may be only part of the year.

Rules for negative tariff zones

Finally, we wish to comment on the proposed rules for zones with negative TNUoS tariffs. The rules for negative tariff zones are consistent with a principle whereby users who receive TNUoS payments have certain obligations to deliver the benefits they are assumed to provide. For generators in negative tariff zones, it is assumed that their output reduces the requirement for infrastructure investment, by reducing system flows under peak conditions, and as such their payments are based on metered output over certain times.

We note that the current measure of peak conditions used for TNUoS charging purposes is the three half hours comprising the Triad, which is the window over which TNUoS charges for Half-Hourly demand users are based. For a given generator in a negative tariff zone, the payments are currently based on metered output over three half hours identified by a similar rule to the Triad, but expressed in terms of the generators output rather than the system demand. Hence the output measure for generators in negative tariff zones is analogous to, but not necessarily coincident with, the Triad, in recognition of the Triad's temporal uncertainty.

The consultation on UoSCM-M-06 suggests that this output measure for generators in negative tariff zones does not provide the correct incentives for the generator to be available for the full winter period from November to February. As such, UoSCM-M-06 proposes to change the output measure to the average of the monthly maximum output in a Settlement Period for each of the months November to February inclusive.

We do not consider this alternative rule to better meet the Relevant Objectives than the current rule. It is our view that this alternative is entirely arbitrary and provides no stronger incentives than the current rule. Further, the proposed output measure is inconsistent with the measure of peak conditions, and this inconsistency would be exacerbated by the proposed implementation of modification proposal, UoSCM-M-08, under which the Triad would be replaced by the Winter Peak Period, or WPP. A corollary of that proposal is that WPP would also be the basis for TNUoS-related embedded benefits, which we note currently follow a similar principle to TNUoS payments to generators in negative tariff zones, in that generators deemed to benefit the transmission system under peak conditions are rewarded.

We would highlight therefore that the proposed rules undermine the principle under which TNUoS is applied to negative tariff zones, since the output measure on which these payments are based no longer relates to the measure of peak conditions. This may lead to perverse incentives, and would also be inconsistent with the treatment of embedded benefits."

Response from SSE

"SSE oppose this modification proposal.

The current arrangements ensure that generators pay transmission network use of system charges precisely to the extent that they use the network. This would appear to us to be a fundamental requirement of charges for using the network. The proposed arrangement will shift the balance of risk from NGC onto generators who will have to forecast their amount of usage of the network, and to pay that sum whether they use it or not. This is asymmetrical with the requirements for demand TNUOS where suppliers forecast their expected usage and then pay for the actual usage. We consider that this proposal is not cost reflective, and is potentially discriminatory. It is therefore not consistent with NGC's licence obligations in these respects.

The timing of this proposal is also problematical, given the expected introduction of British Electricity Trading and Transmission Arrangements in April 2004. If the proposal were to be adopted, it would potentially imply that generators in England and Wales could acquire on a long-term basis all the available entry capacity to the detriment of Scottish generators. Alternatively, the allocation process would have to be reopened as BETTA is introduced. We believe that any further consideration of this and related proposals should be deferred until the BETTA bill is introduced, and the implications can be considered in a GB context.

If, however, the proposal is implemented from April 2003, we firmly believe that generators should have the opportunity to contract for an appropriate TEC at the outset. Failing this, the initial TEC should be set to the outturn 2002/03 figure."

APPENDIX 2 – PROPOSED NEW TEXT FOR THE STATEMENT OF THE USE OF SYSTEM CHARGING METHODOLOGY

Proposed changes to text of Chapter 5 of Use of System Charging Methodology

This modification proposal does not propose any changes to the parties liable for generation charges described in paragraphs 5.1 and 5.2 of the current Use of System Charging Methodology. The proposed changes will therefore affect the wording of Chapter 5 from paragraph 5.3 to 5.9 and suggested new wording is shown below.

Basis of Generation Charges

- 5.3 The value of generation to be multiplied by the relevant generation tariff, for the calculation of generation charges, is set out below. For the avoidance of doubt, the intention of the charging rules is to charge the same physical entity only once.
- 5.4 The basis of the generation charge for Power Stations and Interconnectors is the Chargeable Capacity (as defined below for positive and negative charging zones).

Positive Charging Zones

- 5.5 The Chargeable Capacity for Power Stations situated in positive charging zones is the highest Transmission Entry Capacity (TEC) applicable to that Power Station for that Financial Year.
- 5.6 The Chargeable Capacity for an interconnector connected to a positive charging zone is the highest TEC applicable to that interconnector for that Financial Year.

Negative Charging Zones

- 5.7 The Chargeable Capacity for Power Stations and interconnectors situated in negative charging zones is the average of the maximum metered volumes in a Settlements Periods in each month between November and February inclusive. The metered volumes for each Settlement Period will each be capped by the TEC of the generator or interconnector applicable for that Financial Year.

An example of the application of the methodology for negative tariff zones is shown below.

Example

If the highest TEC for the Financial Year for a Generator were **250 MW** and the highest metered volumes in a Settlement Period in each month between November and February inclusive and resulting capped metered volumes were as follows:

Date	19/11/02	13/12/02	7/1/03	6/2/03
Highest Metered Volume in month (MW)	245.5	250.3	244.5	251.4
Capped Metered Volume (MW)	245.5	250.0	244.5	250.0

then the chargeable Capacity for the generator would be:

$$\left(\frac{245.5 + 250 + 244.5 + 250}{4} \right) = 247.5 \text{ MW}$$

Monthly Charges

5.8 Initial Transmission Network Use of System Generation Charges will be based on the TEC for each user as set out in their Bilateral Agreement. The charge is calculated taking the forecast Chargeable Capacity and multiplying it by the zonal £/kW tariff. This charge is split evenly over the 12 months and charged on a monthly basis over the year.

Reconciliation of Generation Charges

5.9 The reconciliation process is set out in the CUSC. Final Generation Charges will be based upon the actual Chargeable Capacity applicable in the Financial Year being reconciled.

Other Changes to the Use of System Charging Methodology Text

Changes would also be required to other sections of the Use of System Charging Methodology as appropriate to reflect the change of basis. This section briefly summarises those changes.

Chapter 1

Chapter 1 would be updated to reflect the changes made to the Charging Methodologies for April 2003.

Chapter 2

For 2003/04 the derivation of TNUoS tariffs would continue to be based on Registered Capacity, as at the time of tariff setting, no TEC data would be available. It is proposed to change the data used in tariff setting to utilise TEC from April 2004 onwards.

Chapter 6

Chapter 6 would be simplified to distinguish between data required for charge setting and that required for calculating charges. The relevant paragraph is included below.

6.1 Users who are Generators or Interconnector Asset Owners shall provide to National Grid a forecast for the following Financial Year of the highest Transmission Entry Capacity (TEC) applicable to each Power Station or Interconnector for that Financial Year. This data is required by National Grid as the basis for setting TNUoS tariffs. National Grid will request these forecasts in the November prior to the Financial Year to which they relate, in accordance with the CUSC.