



Richard Lavender  
Transmission Charging Development  
Commercial, National Grid Company plc  
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Dear Richard,

### **GB Transmission Charging: Initial Thoughts**

I am responding on behalf of Powergen to the above consultation. We are generally supportive of the initial approach outlined in the document.

### **Extending the England and Wales methodology to Great Britain**

We agree that the present England and Wales methodology provides as good a basis as any to extend to cover Great Britain. Our main concern in this respect is that the appropriate locational signals are given to ensure that generation locates to the appropriate part of the network, to minimise both the cost of infrastructure required and the amount of energy lost through transmission losses. A methodology based on an ICRP transport model provides an effective signal in England and Wales and we feel that it will continue to be appropriate when extended to cover the whole of GB.

Specifically we would support the continuation of the changes brought in under UOSCM-M-10 such as the DC Load Flow transport model, the treatment of substation costs and the inclusion of a security factor. We presume that the latter will have to be adjusted from its present value of 1.9 to reflect how an unsecured transport model could most closely approximate a secured model for the extended network.

### **Negative demand charges, G/D Split and Hydro Benefit**

Negative demand charges under the present charging structure could lead to perverse incentives being created. Therefore, some form of adjustment will be required should negative charges be calculated in respect of one or more demand zones under the initial calculation. The

document outlines two options for avoiding this. The first of these is to alter the split of revenue recovered from generation and demand, the G/D split, to increase the proportion recovered from demand. The second option is to set charges in negative demand zones to zero and to lower the charges to other demand zones to maintain the same G/D split.

Of the two options we believe that the second would be better in these circumstances. Our reasoning relates to the likely introduction of a levy to replace the Hydro benefit presently provided to customers on SSE's North Scotland distribution network. Whilst we do not support the raising of the levy, as it replaces one subsidy with another, we appreciate that NGC will be required to recover this money from suppliers in proportion to their demand in other zones. The second option described above would soften the impact of this on the suppliers affected whereas altering the G/D split would exacerbate it further.

### **The requirement to pay TNUoS charges**

The present England and Wales rules regarding who should pay TNUoS charges would be appropriate under BETTA. We assume that generators connected to the 132kV network in Scotland will be regarded as connected to the transmission system and therefore will be required to pay transmission related charges.

There have been suggestions that smaller transmission connected generators should be excluded from some or all transmission charges as there are concerns that this will jeopardise the government's targets for renewables. Whilst significant wind and wave resource exists in Scotland, significant resource exists elsewhere also. It is a simple fact that, in respect of transmission investment, locating a generator closer to demand will be more beneficial in terms of economic efficiency. This in turn has beneficial environmental effects in terms of less energy spent on building infrastructure and lost in transmission losses. Locational charging exposes the generator to the economic consequences of that locational decision and so provides an efficient market signal.

Small does not necessarily equate with renewable. Allowing small transmission connected generators an exemption from charges would allow small fossil fuelled generators to benefit also. Additionally, many of the next generation of wind farms will be of a significant size, in the hundreds of MWs, and will therefore be subject to transmission charges anyway.

Much has been made of the argument that under BETTA a generator connected at 132kV in Scotland will be discriminated against compared with stations connected at 132kV in England and Wales. However, the voltage at which a generator is connected is simply an engineering fact and is irrelevant in this context. Transmission is an activity sanctioned by law and its scope and consequences are defined in the appropriate Acts, secondary legislation and licences. Transmission assets are those assets which are used to carry out that function and the costs of

recovering those assets should be recovered from all of those who use them. Allowing a generator who is connected to the system to avoid transmission charges simply on the basis of its size would actually constitute discrimination. For instance, it is not clear why a generator of 100MW would use the system any more than two generators of 50MW.

If further assistance is required for renewable technologies, this should be provided through explicit mechanisms such as the Renewables Obligation or capital grants. To provide an implicit subsidy through charge reductions for small transmission connected generators would simply create a market distortion, which will discriminate against renewable generators which locate closer to demand. It will also discriminate against larger renewable power stations, which have just as valuable a role to play in terms of meeting the Government's renewables targets as small generators.

#### **Provision of accurate and timely information**

Whatever the methodology finally agreed on, we would urge NGC to provide users with as much advanced warning of the new charges as possible. It is vital that this information is accurate as well as timely. This year as part of the charging review NGC provided users with information about the likely levels of charges which would result. This information was based on the present year's costs charged under the new methodology. There was a marked difference between these charges and the actual charges when they were eventually produced. For demand zones the difference was around £1/kW, which would have represented multi-million pound cost swings for many suppliers. This sort of shift creates significant risks for suppliers which ultimately could result in increased prices paid by customers.

I hope the above points prove helpful. Should you need to contact me, please call me on 024 7642 4829.

Yours sincerely,

Paul Jones  
Trading Arrangements