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PRE-CONSULTATION DOCUMENT: GB-ECM 10 Transmission Network Use of System Generation Zoning Criteria

Dear Mathew,

Thank you for the opportunity to respond to the above pre-consultation. The following comments are provided on behalf of the RWE group of companies including RWE Trading GmbH and RWE Npower plc.

General

We welcome this attempt to inform and involve others in the process of determining zones. We recognise the difficulty NGET face in finding a balance between stability and cost-reflectivity and believe it is sensible to consider methods of making the criteria for selecting generation zones a more accurate and robust process.

The criteria used by NGET represent some hard constraints, e.g. the +-£1/kW nodal spread within zones, and some soft ones, e.g. electrical and geographic proximity. Since every node can be reached electrically from any other, this criterion allows too much subjectivity, and similarly geographic proximity depends on judgement. The zones used in the past are clear examples of this: where nodes near Dover are grouped with nodes in Shropshire. The charging methodology states that generation tariff zones would follow the main system boundaries in some secondary criteria of the method whereas the zone labelled 14 in the consultation Figure 4 spans many of the main system boundaries. In most cases any generation deviation from the base plan would mean that new zones are required, and the boundaries of existing zones have to be redefined.

Specific Consultation Items

Firstly, we will address the main criterion in determining generation zones and then consider the points raised for defining exceptional circumstances.

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The Nodal Marginal Cost Spread

One of the reasons for choosing the +-£1/kW Nodal Marginal Costs (NMC) spread has been to derive a set of zones which group generation of "similar" costs. This effectively can result in generation TNUoS costs which can vary by £2/KW within the same zone. Clearly a spread of costs of this magnitude does not result in "similar" costs, where for example the TNUoS costs of a 1000MW power station can vary by £2M/year. Also, it has been argued that a smaller number of zones would be administratively easier. We do not believe that having the least number of TNUoS generation charging zones can be a primary criteria. There is no clear benefit to having the least number as any additional administrative burden or complexity is not great.

The main points raised by the consultation on the NMC spread focuses on the +-£1/ kW issue. The choice of this value was purely arbitrary from inception. We do not believe that this value is appropriate, and have argued for it to be lowered, since this would result in nodes which have "electrical system similarity", to be in the same TNUoS charging zones. We note that NGET have provided zones with a higher NMC spread, but have not provided a set of indicative zones using a smaller NMC spread. We hope that zones using a set of smaller NMCs can be made available by NGET, which would enable a more informed debate.

The current number of zones used for charging TNUoS for 2008/09 is twenty using a +-£1/kW NMC spread. Some of these zones, e.g. zones 1, 7, 9, 13 and 14 covers a relatively large geographic areas, but more importantly, contains regions where the costs of the electrical network is believed to be very dissimilar. As a result, we believe that the cost reflectivity and cost differentiation is lost in this process where initially nodal demand and generation were used to derive the NMCs and then this message is diluted by the zoning process. We would advocate a smaller zonal spread on the nodal NMCs.

The Definition of Exceptional

Since choosing a set of criteria which is more robust to changes in generation/demand would lead to less need for changes in zones, it is more likely that zones would only have to be reviewed for "major" changes. In addition, exact specification of what would qualify as the 'exceptional circumstances' required to necessitate the changing of zones within a price control would clearly be of assistance.

Response to the Consultation Questions

1. We believe that as long as each generator is not subject to the correct charge, the zones should be re-assessed.
2. If a "robust" primary NMC spread is chosen to determine zones, then it is likely than an additional range would not be needed. In any case we do not recommend introducing another arbitrary range of £0.5 to the process.
3. Any "major" changes which result in a Users tariff should lead to a review of the charges.
4. The £+-1/kW range of NMC was an arbitrary choice for the determination of TNUoS generation zones and charges. We believe that this value should be reviewed, and more careful consideration is given to deriving charges which are more representative of the costs incurred by the SO. The grouping of very dissimilar costs between generators does not lead to efficient planning and use of the transmission system.

5. If a “more appropriate” choice of NMC spread is chosen, then it can be inflated by RPI. However, we do not believe that inflating the current +-£1/kW would serve any useful purpose. In any case, when the +-1£/kW was chosen the EC constant stood at circa. £28/MWkm, the current EC is only circa £10/MWkm and together with the LSF value of 1.8; this is still only represents an effective EC of £18/MWkm. If some parity with the initial £1/kW is sought, we would recommend that the NMC zoning be first re-based to the £28/MWkm level.
6. There is no economic justification for choosing the demand zones as a basis for generation zones, if analysis can be shown to produce some economic cost and benefits in developing the Transmission system, then a set of fixed zones maybe a solution, but not necessarily the demand zones.

If you have any questions or would like any clarifications or expansions, please feel free to contact me to discuss in more detail.

Yours Sincerely
Andy Manning
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