



# **CONCLUSIONS REPORT TO THE AUTHORITY**

## **Modification Proposal to the Use of System Charging Methodology**

**GB ECM-03**

**LDTEC Charges**

6 February 2006

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## **1. INTRODUCTION**

- 1.1 A consultation document for modification proposal GB ECM-03 was issued on 1 December 2005. The document set out for consultation National Grid's proposal to modify the Use of System Charging methodology to include a methodology for the charging of a new sub-annual transmission access product, Limited Duration Transmission Entry Capacity (LDTEC).
- 1.2 The same document also consulted on modification proposal GB ECM-04, which considered similar proposals to modify the Use of System Charging methodology to charge for Multiple Contiguous STTEC – a further additional access product based on the existing Short Term Transmission Entry Capacity (STTEC) products.
- 1.3 Both GB ECM-03 and GB ECM-04 are consequential to CUSC Amendment Proposal 094 (CAP094), which is being progressed in parallel to these charging modification proposal.
- 1.4 Comments on the modification proposals were invited by 6 January 2006. This report has been made in accordance with Condition C5 in National Grid's Transmission Licence and focuses on GB ECM-03. A separate Conclusion Report has been prepared and submitted to the Authority for GB ECM-04.

## 2. TERMS OF THE ORIGINAL PROPOSED MODIFICATION

### Description of proposed modification to the Use of System Charging Methodology

National Grid proposed to change the Use of System Charging Methodology to enable it to charge for LDTEC in accordance with the CUSC, if modified by CAP094.

In **positive charging zones**, the LDTEC tariff for the initial 17 weeks (whether consecutive or not) of capacity provided by LDTEC in a given charging year would be derived from equivalent zonal STTEC charges. For the remaining weeks of the year, LDTEC tariff would be set to collect the balance of the annual TNUoS liability for that zone:

Initial 17 weeks (high rate):

$$\text{LDTEC tariff (£/kW/week)} = \frac{FT_{G_i} \times 0.9 \times 7}{120}$$

Remaining 35 weeks (low rate):

$$\text{LDTEC tariff (£/kW/week)} = \frac{FT_{G_i} \times 0.1 \times 7}{365 - 120} \times (1 + P)$$

where  $FT$  is the final annual TNUoS tariff expressed in £/kW;  
 $G_i$  is the generation TNUoS zone; and  
 $P$  is the premium in % above the annual equivalent TNUoS charge as determined by National Grid.

While National Grid initially proposed there should not be any premium associated with the longest duration of LDTEC in the year, i.e.  $P = 0\%$  in the equation above, the proposed methodology included provision for this to be revised at a later date should this be deemed necessary.

The LDTEC Charge for each LDTEC Period would be given by the sum of the liabilities associated with each incremental amount of LDTEC purchased. The charging liability for each incremental amount of LDTEC, relative to any LDTEC purchased previously in the Financial Year, would be the sum of:

- (i) the product of the higher tariff rate and capacity purchased at this increment for the first 17 weeks (whether consecutive or not) in a Financial Year (i.e. a STTEC-equivalent charge for the first 17 weeks)

*and*

- (ii) the product of the lower tariff rate and capacity at this increment purchased for any additional weeks (whether consecutive or not) within the same Financial Year (i.e. to recover the balance of the annual TNUoS liability if used for the maximum period).

LDTEC Charges would be collected in equal monthly instalments for each month in which LDTEC is purchased.

Where a User has purchased LDTEC prior to TEC and both in the same year,

LDTEC Charges will be determined by applying the appropriate LDTEC tariff to any LDTEC that is incremental to the TEC purchased, and the equivalent weekly TNUoS tariff applied to LDTEC that is not incremental.

In **negative charging zones** National Grid proposed the LDTEC tariff should be zero. We believe this is appropriate to avoid complex proving runs and to be consistent with the equivalent arrangements for STTEC.

As with STTEC, it is not intended to include forecast LDTEC or the anticipated revenue from possible future LDTEC purchases in the DC load-flow (DCLF) Transport and Tariff Models. It is not, therefore, the intention of this proposal to change the existing arrangements for tariff setting for TEC. National Grid believes this is appropriate as the expected volumes of LDTEC are low.

National Grid believes this proposal is not discriminatory and will neither undermine TEC nor STTEC, as the proposed charges would resemble those of STTEC in the short-term and the non-charging differences between LDTEC and TEC tend to ensure that TEC will remain the primary access product. Furthermore, while the marginal cost of provision is zero, or close to zero, National Grid considered an LDTEC charge that provided discounted access over the year might be expected to destabilise charging arrangements for TEC.

Nevertheless, if these proposals were implemented, National Grid would closely monitor the use of LDTEC and TEC. If there were evidence of TEC substitution, National Grid would consider revising the charging arrangements for LDTEC and / or seek suitable revisions to the CUSC. As noted above, the proposed methodology does not preclude National Grid revising the level of any premium at a later date, subject to the required notice periods.

## **Explanation of the issues**

### ***Background & Process***

First Hydro Company proposed CAP094 in June 2005 and, following consideration by a CUSC Working Group and consultation with all CUSC Parties, the associated CUSC Amendment Report was submitted to the Authority in December 2005.

Charging methodology proposal GB ECM-03 is consequential to CAP094. Prior to consulting formally on the proposed changes to the charging methodology, National Grid conducted an Initial Thoughts consultation during September 2005 on the principles that should be adopted for LDTEC charges. Five responses were received and these were used to prepare National Grid's formal proposal. These proposals were published for consultation on 1 December 2005 and discussed at the Transmission Charging Methodology Forum (TCMF) and the Charging Issues Standing Group later that month. The consultation concluded on 6 January 2006.

### ***Explanation of the Issue***

Presently generators that wish to access the GB transmission system can do so by either purchasing TEC or STTEC. TEC provides an annual access right that may be used in future years (subjected to continued compliance with the CUSC), while STTEC provides a 4, 5 or 6 week access right and does not confer any future rights to its holder. The introduction of LDTEC would 'fill the gap' between STTEC and TEC by providing an access right between 7 and 45 weeks in a single financial year via one application. Like STTEC, it would not confer future rights to its holder.

A variety of different types of LDTEC have been developed within CAP094, however

a single charging methodology has been proposed that could be applied to any variant of LDTEC.

#### **Justification for proposed modification**

The proposed modification would better meet the Relevant Objectives in Licence Condition C5 of:

- 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;
- to result in charges which reflect, as far as reasonably practicable, the costs incurred by National Grid in its Transmission Business; and
- to take account of the developments in National Grid's Transmission Business.

The modification will achieve these objectives in the following manner:

- by ensuring the appropriate treatment between Users incurring generation TNUoS Charges (for use of TEC) and STTEC Charges (for use of STTEC);
- by setting charges that facilitate the use of a flexible access product, competition in generation will be enhanced;
- by ensuring that the primacy of TEC is protected, the cost-reflective charging arrangements for TEC would not be destabilised and consequently would not undermine the investment signals derived from applications for TEC;
- by introducing a cost-reflective application fee; and
- by ensuring that the charging methodology reflects developments to the GB transmission system i.e. CAP094.

#### **Suggested alternatives**

Two alternative approaches were received from respondents following National Grid consultation on GB ECM-03:

- i) the charges should be based on the peak amount of LDTEC purchased in a period (submitted by one respondent).
- ii) the charges should be derived from the non-locational component of the TNUoS charges (submitted by one respondent).

The final proposal has not been amended as a result of these suggested alternative approaches. National Grid has responded to these suggestions in Section 3. National Grid has, however, modified the proposed algebra to align with our intention that the charge for the maximum annual use of the new product should equal to the annual charge for an equivalent amount of TEC. This is explained in Section 4.

**Implementation date**

National Grid proposed the implementation date for these proposals should be 28 days following submission of the charging conclusion reports to the Authority.

We do not believe that mid-year implementation would be problematic for the proposed methodologies.

National Grid noted the requirement in the CUSC to not give less than two months notice before revising use of system charges, unless the Authority has consented to a shorter period. National Grid believed such consent may be required for these proposals.

National Grid provided 150 days notice to the Authority in November 2005 of our intention to propose changes to the Use of System Methodology and the charges derived from it to reflect the development of new short-term access products under CAP094.

**Proposed changes to the Statement of the Use of System Charging Methodology**

National Grid did not include changes to the Statement of the Use of System Charging Methodology in the consultation document. Given the interaction between the text of the statement, the Authority's decision on CAP094 and these charging proposals, we do not intend to publish draft text until these have been made. Nevertheless and time permitting, National Grid would intend to seek views on the textual changes to the statement in advance of these being made. National Grid presently envisages changes to Chapters 3, 5, 7 and Appendix TN-6, along with insertion of a number of Glossary terms would be required.

**Impact on Use of System charges**

A new LDTEC tariff and an LDTEC Request Fee have been proposed. Indicative tariffs and fees are provided in Appendix 1 of this report.

Any charges levied for LDTEC will impact on TNUoS revenue recovery and this may affect the level of charges set in subsequent periods, however, this effect is not expected to be significant assuming limited use of the new access product.

**Impacts on other Industry Documents**

This modification proposal has been progressed as a consequence of CAP094. This charging proposal does not, however, require changes to any other industry document to enable it to be implemented.

### 3. RESPONSES TO THE MODIFICATION PROPOSAL

- 3.1 National Grid received six responses to its consultation on GB ECM03. None of the responses were marked as confidential, and copies of the responses are contained within Appendix 2 of this report.

#### Support for the proposal

- 3.2 Five respondents supported the proposed methodology to various degrees and one party believed the use of LDTEC should attract a premium charge to the equivalent charge for TEC.

Party	Support	Comment
EdF	Yes	Strikes correct balance between cost reflectivity and protecting TEC
British Energy	Partial	Generally supportive but charges should be based on peak rather than weekly capacity
Centrica	Yes	A pragmatic way forward
International Power	Partial	Charges should be derived from non-locational element of TNUoS but supports the proposed tariff profile
RWE npower	No	Does not support CAP094 and believes LDTEC charges should be set at a premium to the equivalent TEC charge
E.ON UK	Yes	Solution effectively links methodology for short-term and long-term access

#### Issues raised by respondents

##### Tariff proposal

- 3.3 Four respondents stated it would be appropriate to ensure that TEC remained the prime access product and that short-term products, or the charging arrangements for these, should not be allowed to undermine TEC.
- 3.4 One respondent suggested that charges for LDTEC should be based on the short run marginal cost of provision. The same respondent advocated a tariff for LDTEC based on the non-locational element of TNUoS tariffs and suggested that a negative value of P (in the proposed methodology) should be considered to better reflect the short run costs. This respondent believed this would not result in users switching from TEC to LDTEC given the scarcity of TEC in positive charging zones.
- 3.5 Other respondents took different views. One respondent believed that charges based on solely the non-locational element of TNUoS tariffs would discriminate between users in marginally positive and high positive charging zones. The same respondent also believed this would undermine TEC.

Another respondent stated that while it could be argued that charges for LDTEC should not be based on tariffs derived from a long-run cost model, to do otherwise could significantly undermine TEC. A third respondent strongly opposed LDTEC being available at a discount to the equivalent TEC, to avoid creating perverse incentives between short-term and long-term access.

- 3.6 One user proposed that the value of P should be greater than zero to reflect additional costs that could arise from inefficiencies caused by poorer quality generation background information for system planning (citing analysis based on the SKM report, "Technical Evaluation of Transmission Network Reinforcement Expenditure by Licensees in Great Britain"); the distortion of locational signals provided by TNUoS tariffs; and increased transmission constraints.
- 3.7 Several respondents accepted National Grid's assessment that the non-charging properties of TEC and LDTEC tended to ensure that TEC would remain the primary access product. One of these parties also agreed that users of LDTEC would be only doing so in the absence, for whatever reason, of being able to obtain TEC. As such, these parties believed the proposal to set the value of P to zero was appropriate, so that charges for LDTEC would equal the corresponding charge for TEC over an equivalent period.
- 3.8 Four parties supported the "up-front" tariff profile approach, as it would ensure that parties would not be able to "free-ride" during the peak period; it would provide an effective premium in the short-term but none for longer-term use; and it would avoid creating perverse incentives to use LDTEC rather than STTEC at times when the latter was intended to be used. One of these respondents noted that while the proposal would not encourage use of the product during the summer, it would not present a significant barrier to the use of LDTEC.
- 3.9 One respondent considered the appropriate capacity driver to be the peak capacity requested, as this would be consistent with the charging for TEC and is the driver of network costs. The same respondent believed the proposed weekly capacity charge could undermine TEC.
- 3.10 One party supported the proposal to deal with situations where a generator has been granted TEC and is using LDTEC within the same year until the TEC is available.

### ***National Grid response***

- 3.11 National Grid remains of the view that TEC should be the primary product that users seek and retain in order to use the transmission system. As stated previously, registration of TEC is a key element of National Grid's ability to satisfy its statutory and licence obligations to develop an efficient, economic and co-ordinated transmission system and to facilitate competition in the supply and generation of electricity by setting cost-reflective locational charges. Were TEC to be undermined it could give rise to inefficient transmission investment decisions and increase constraint costs, which we do not believe would be in the best interests of consumers. Accordingly, for the reasons outlined above, National Grid agrees with respondents that TEC should remain the primary access product.

- 3.12 However, National Grid believes the non-charging properties of LDTEC and TEC suggest a premium charge is not necessary to ensure that TEC remains the primary access product. In particular, the enduring access rights afforded by TEC (subject to compliance with the CUSC) and the uncertainties associated with the availability of capacity provided by LDTEC make it unlikely that new or existing users will use LDTEC in preference to TEC. Accordingly we do not believe a premium charge for use of LDTEC (i.e. a value of  $P$  greater than zero) is necessary to protect TEC in positive generation charging zones. Naturally, National Grid will monitor the registration of TEC over time to ensure that our charging methodologies remain consistent with our relevant licence objectives. In negative generation charging zones, we remain of the view that a zero charge is appropriate to avoid introducing complex “proving” arrangements and perversities that could enable users to receive multiple TRIAD payments. Such an arrangement would also mirror those for STTEC in negative generation zones.
- 3.13 Despite the differences in the non-charging properties of the access products, National Grid does not believe access provided by short-term products should be available at a discount relative to the equivalent access provided by long-term products, as this would risk undermining use of the long-term product (TEC). Accordingly, while a charging methodology based on short-run costs may better reflect the cost of provision of LDTEC than the proposed approach, we believe setting charges close to zero would provide a significant discount that could destabilise the cost-reflective charging regime for TEC.
- 3.14 A discount would also be provided were LDTEC charges based on the non-locational element of TNUoS tariffs. In this case, National Grid additionally considers this would be inconsistent with our licence obligation to not discriminate between users. Specifically, the discount for LDTEC would vary between marginally positive and high positive charging zones, which would provide difference incentives to use LDTEC in different zones. We believe this would be discriminatory.
- 3.15 Against this background and for the avoidance of doubt, whilst the description of  $P$  in the proposed methodology did not prohibit it from being negative, National Grid considers the resulting discount could not be justified for the reasons provided above.
- 3.16 Given LDTEC can provide access over a range of timescales, the proposed methodology allows charges for LDTEC to resemble those for STTEC when it is being used in STTEC timescales and those for TEC when it is used for its maximum duration in the year. This arrangement results in an effective premium for short-term use of LDTEC and a charge equivalent to TEC when used for longer periods. We consider this approach would not undermine any of the existing access products and would facilitate competition in generation by not setting charges for LDTEC that would create a barrier to its use.
- 3.17 National Grid believes that the proposed charging methodology is consistent with that for TEC in that access charges are proportional to a user’s access rights. Specifically, TEC provides an annual right that allows a User to export up to a defined maximum capacity at any point within the year and TNUoS charges are proportional to this capacity. Conversely, the access rights provided by LDTEC could vary within the access period and a charge based on the weekly capacity better reflects the user’s capacity rights than a peak-based driver. National Grid notes that a peak and weekly methodology

results in the same charging liability when the access rights do not vary with time (i.e. a uniform profile). Accordingly, where the access rights provided by TEC and LDTEC are equivalent, the access charges would also be equivalent and there would be no incentive to use LDTEC if TEC were available. Therefore, we do not believe a weekly charging approach would undermine TEC.

- 3.18 National Grid continues to believe that where a User has purchased LDTEC prior to TEC being available later in the same financial year, there is no evidence that TEC has been undermined and therefore a premium charge for the use of LDTEC cannot be justified. National Grid believes it is appropriate to revise the invoicing methodology for TEC such that there would be a positive charge during the LDTEC period, but with reduced charges (compared to the current arrangements) for the duration of the TEC period.

#### **Application Fee proposal**

- 3.19 Two respondents commented on the level of the application fee for LDTEC requests. Of these, one supported the differentials that had been proposed and both felt that the magnitude of the charges were arbitrary. Both respondents also suggested that the fees be reviewed in the light of experience of assessing applications for LDTEC (and STTEC). Another respondent supported National Grid's proposal that part of the application fee should be refundable should an offer be rejected and rolling assessment works are consequentially avoided.

#### ***National Grid response***

- 3.20 National Grid believes it would be appropriate to re-assess both the level and differentials of assessing applications for LDTEC once there has been sufficient experience of assessing applications for this product. In assessing the appropriateness of the application fee National Grid would expect to consider the incentive properties of the application fee as well as the costs of assessment.

#### 4. CHANGES TO THE PROPOSAL IN LIGHT OF REPRESENTATIONS

- 4.1 National Grid believes an intention of these proposals, and the basis upon which representations were made to the consultation, was that the charge for the maximum duration of LDTEC (i.e. 45 weeks) should be equal to the charge for 52 weeks use of an equivalent amount of TEC.
- 4.2 National Grid notes the algebra included in the original proposal does not achieve this and would, if implemented, provide discounted access were LDTEC used for the maximum period within a year. National Grid therefore proposes to change the proposed methodology to reflect this intention:

Initial 17 weeks (high rate):

$$\text{LDTEC tariff (£/kW/week)} = \frac{FT_{G_i} \times 0.9 \times 7}{120}$$

Remaining weeks (low rate):

$$\text{LDTEC tariff (£/kW/week)} = \frac{FT_{G_i} \times 0.1075 \times 7}{316 - 120} \times (1 + P)$$

where  $FT$  is the final annual TNUoS tariff expressed in £/kW;  
 $G_i$  is the generation TNUoS zone; and  
 $P$  is the premium in % above the annual equivalent TNUoS charge as determined by National Grid.

- 4.3 These revisions ensure that where  $P$  set to zero the total charge for a 45-week period of LDTEC would equal the annual charge for an equivalent amount of TEC.

## 5. HOW THE PROPOSED MODIFICATIONS BETTER MEET THE RELEVANT OBJECTIVES

5.1 The proposed modification would better meet the Relevant Objectives in Licence Condition C5 of:

- 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;
- to result in charges which reflect, as far as reasonably practicable, the costs incurred by National Grid in its Transmission Business; and
- to take account of the developments in National Grid's Transmission Business.

5.2 The modification will achieve these objectives in the following manner:

### **Facilitation of effective competition**

- by ensuring the consistent treatment between Users incurring generation TNUoS Charges (for use of TEC) and STTEC Charges (for use of STTEC);
- by setting charges that facilitate the use of a flexible access product, competition in generation will be enhanced;

### **Cost reflectivity**

- by ensuring that TEC remains the primary access product, the cost-reflective charging arrangements for TEC would not be destabilised and consequently would not undermine the investment signals derived from applications for TEC;
- by introducing a cost-reflective application fee; and

### **Developments in Transmission Business**

- by ensuring that the charging methodology reflects developments in the GB transmission system i.e. CAP094.

## **6. TIMETABLE FOR IMPLEMENTATION**

- 6.1 National Grid originally proposed that implementation of these proposals should be 28 days following submission of this Conclusion Report so that LDTEC could be available for use during the current financial year. Clearly, for this to be achievable, National Grid would have required the Authority's consent to give less than two months notice before revising use of system charges.
- 6.2 National Grid notes that the properties of LDTEC are such that it could not now be used during the current financial year if it were implemented prior to 31 March 2005. Nevertheless, National Grid continues to believe that there are merits in implementing CAP094 as soon as practicable to maximise the time that LDTEC is available during the forthcoming financial year. We therefore propose that GB ECM-03 should be implemented on 1 April 2006 (the earliest implementation date proposed in CAP094) and we request that the Authority consents to a shorter notice period for revising the use of system charges. Given LDTEC is a new product for which there are no existing charges, National Grid considers the benefit of implementing GB ECM-03 on this date outweighs the possible detriment of a shorter notice period.
- 6.3 If the Authority does not consent to a shorter notice period, an implementation date of 8 May 2006 is proposed. We remain of the view that a mid-year implementation would not be problematic for the proposed methodology, as the charges derived from the proposed methodology are not linked to the beginning of the financial year.

## APPENDIX 1 – STATEMENT OF CHARGES

### Part A – Indicative tariffs for LDTEC

Generation Zone	Zone Area	Generation Tariff (£/kW)	LDTEC tariff (£/kW per week)	
			Higher rate	Lower rate
1	Peterhead	18.393741	0.965671	0.070619
2	North Scotland	20.519472	1.077272	0.078780
3	Skye	13.297995	0.698145	0.051055
4	Western Highlands	18.621394	0.977623	0.071493
5	Central Highlands	15.412503	0.809156	0.059173
6	Cruachan	13.521386	0.709873	0.051912
7	Argyll	13.521386	0.709873	0.051912
8	Stirlingshire	13.065240	0.685925	0.050161
9	South Scotland	12.140893	0.637397	0.046612
10	North East England	8.885489	0.466488	0.034114
11	Humber, Lancashire & SW Scotland	5.613850	0.294727	0.021553
12	Anglesey	6.283570	0.329887	0.024124
13	Dinorwig	8.938682	0.469281	0.034318
14	South Yorks & North Wales	3.835629	0.201371	0.014726
15	Midlands & South East	1.219345	0.064016	0.004681
16	Central London	-5.495111	0.000000	0.000000
17	North London	0.362093	0.000000	0.000000
18	Oxon & South Coast	-0.513619	0.000000	0.000000
19	South Wales & Gloucester	-2.736627	0.000000	0.000000
20	Wessex	-5.065004	0.000000	0.000000
21	Peninsula	-9.145693	0.000000	0.000000

## Part B – Application Fees for LDTEC

The following LDTEC Request Fees shall apply for applications for LDTEC in any zone. All prices exclude VAT.

Application fee	Duration of LDTEC (t)	£
<b>LDTEC basic application fee (t)</b>	t ≤ 3 months	10,000
	3 months < t ≤ 6 months	15,000
	6 months < t ≤ 9 months	20,000
	t > 9 months	30,000
<b>Additional fee for rolling assessment</b> (if applicable)	t ≤ 3 months	1,000
	3 months < t ≤ 6 months	1,500
	6 months < t ≤ 9 months	2,000
	t > 9 months	3,000
<b>Additional fee for combined applications</b> (if applicable)	t ≤ 3 months	5,000
	3 months < t ≤ 6 months	7,500
	6 months < t ≤ 9 months	10,000
	t > 9 months	15,000

Payable up-front in full prior to receipt of a valid application.

## **APPENDIX 2 – RESPONSES TO MODIFICATION PROPOSAL**

### **EdF**

EDF Energy is pleased to have the opportunity to respond to this consultation on the proposed charges which would accompany Limited Duration TEC, were it to be approved. We broadly support the proposed charging modifications as the methodology changes strike a proper balance between cost-reflectivity and protecting the primacy of TEC.

Our response to the Initial Thoughts Consultation on this subject stated that where LDTEC – in whatever form – tends towards TEC the applicable charge should look similar to the TEC model and where LDTEC tends towards STTEC then charging should be based on the STTEC model. We are pleased to see that National Grid broadly agree with this perspective and we believe that the proposed methodology is consistent with the intent of CUSC Amendment Proposal 094 as well as ensuring that TEC does remain the predominant access product.

The 'Up-front' profile provides a charging mechanism which allows for the duration of LDTEC to be flexible, but ensures that there can be no 'free-riding' by generators attempting to achieve access at system peak without paying the majority of the equivalent TEC for that volume of access. It is likely however, that STTEC will become defunct as we would expect that LDTEC would generally allow more flexible access at the same cost over shorter time-scales.

The argument in paragraph 24 that TEC is protected because of the GB Queue is a somewhat spurious justification; the current high demand for transmission access may not be enduring and LDTEC can quite easily be justified, in our view, by arguments that will apply equally over longer timescales. This could mean that there may be a case for introducing a premium to the low-rate charge for LDTEC in future if the actions of generators suggest to National Grid that TEC was being undermined.

We hope that you have found these comments useful, but if you have any further questions please contact me on 020 7752 2524 or Rupert Judson on 020 7752 2526.

Yours sincerely,

Stephen Moore

Energy Market Strategy,  
EDF Energy.

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### **British Energy**

This response is made by British Energy Group plc. British Energy is the UK's largest generator of electricity. We own and operate eight nuclear power stations as well as Eggborough Power Station, (a large coal plant with two units fitted with FGD) and four small, embedded gas generator sites. British Energy is also a large supplier selling exclusively to Industrial & Commercial customers. British Energy Direct accounts for around 30 TWh of the UK supply. British Energy welcomes the

opportunity to respond to the above consultation, which raises a number of important issues.

**Key Points:**

- **TEC plays an important part in allowing National Grid to discharge its obligations regarding facilitating competition and developing the transmission system. Short term access products should not therefore be allowed to undermine TEC. We therefore support National Grid's proposal that charges for such products should therefore be locational and consequently linked to TNUoS tariffs in positive zones.**
- **We accept the arguments for not charging a premium for short-term access products presented by National Grid. The short-term products are riskier in nature and the access rights granted may vary.**
- **We support National Grid's proposal to charge on an up-front basis for short-term access. This will result in an effective premium being charged for short-term usage while not introducing a premium over TEC for longer periods of access. This should ensure users are correctly incentivised and provide consistency between LDTEC and STTEC.**
- **We continue to support a peak based approach to the charging for short-term access as this is consistent with charging for TEC and is the driver upon which network costs are incurred. We are concerned that National Grid's favoured approach of charging on the basis of weekly capacity may create perverse incentives.**

In general we are supportive of the proposals set out in the consultation document. We agree with National Grid that it is important that TEC should remain the prime product by which generating parties gain access to the transmission system. We share National Grid's view that if TEC were to be undermined then its ability to discharge its statutory duties would be compromised. While we accept the argument presented by National Grid for not charging a premium at this time for short-term access we are strongly opposed to suggestions made by others that there should be a discount. Such an outcome would introduce perverse incentives between short-term and long-term access.

We support National Grid's proposal that charges for short-term access products should be locational and linked to TNUoS tariffs in positive zones. We do not support suggestions that charges for short-term access should be based solely on the non-locational element of the TNUoS tariff as this would in effect discriminate between users in marginally positive zones as compared to those in high positive zones. We also consider that such a move would undermine TEC.

We support National Grid's proposal that charges for short-term access in negative charging zones should mirror those in place for STTEC which is set at zero.

We consider that LDSTEC is a within year product intended as an addition to STTEC which was developed to allow short term-access at times of system peak. Because of this distinction an up-front charging profile is appropriate to allow LDTEC charges to resemble STTEC over STTEC timescales and TEC over longer periods. Without this approach there could be a perverse incentive to use LDTEC rather than STTEC at times when it was intended the latter would be used. The higher LDTEC tariff applying for the first 17 weeks seems appropriate.

We continue to believe that peak capacity is the key driver of transmission costs and as such support a peak-based charging approach for LDTEC consistent with the approach, adopted for TEC. National Grid's proposal to use a weekly capacity based charge could undermine TEC.

I trust this response is helpful but please feel free to contact me directly should you need clarification of any of the points made.

Yours sincerely

John Capener

Head of Transmission and Trading Arrangements  
British Energy Power & Energy Trading

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### **Centrica**

Centrica welcomes the opportunity to provide comments to National Grid on the two charging methodology modification proposals.

We believe that the proposals for charging for LDTEC and Multiple STTEC represent a pragmatic way forward. We support NGET's view that TEC should remain the prime product for gaining access to the transmission system. We also agree that users of these products are only doing so in the absence of being able to obtain TEC, for whatever reason, as such, we do not believe that the use of these products at the rate within the proposals will undermine TEC.

We concur with NGET's assessment for the differentials in the level of the access fees for the different products, as they have different levels of associated analysis and on going work. However, as the application fees appear to be set at somewhat arbitrary figures, we suggest this is analysed in association with the first applications of these products (if implemented) to ensure this has been set at the correct level.

We hope these comments have been useful, please do not hesitate to contact me if you have any questions.

Yours sincerely,

Sarah Owen

Commercial Manger  
Centrica Energy

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### **International Power**

Thank you for the opportunity to comment on the LDTEC charging consultation. This response is submitted on behalf of International Power's operating companies: First Hydro Company; Rugeley Power Ltd; Deeside Power Development Company Ltd; and Saltend Cogeneration Company Ltd.

We offer the following comments in the key areas.

### **Locational Charge**

LDTEC is a short term product with no future rights and as such its charge should be based on the short run marginal cost of providing the service. We continue to believe that a tariff based on the non-locational element of the TNUoS tariff would not lead to users switching from TEC to LDTEC given the scarcity of TEC in positive charging zones.

The proposal effectively charges the annual TNUoS rate for 12 months of use. The proposal also allows the location charge to be varied by a factor P which can be either positive or negative. If P is set positively a premium would be charged and if P is set negatively a reduced charge would apply. When National Grid review the LDTEC charging arrangements for future years we hope that a consideration of a negative P takes place to better reflect the short run costs.

### **Tariff profile**

We support National Grid's approach to the tariff profile of LDTEC which now charges the first 17 weeks at high price and the remaining weeks at a lower price. Whilst this will not encourage the use of the product during the summer months we do not believe that this will present any significant barriers to the use of the product.

### **Application Charge**

We are concerned that National Grid is currently charging a significant premium for work that it undertakes in assessing STTEC applications and any suggestion that additional fees need to be charged for LDTEC need to be benchmarked against the real cost of STTEC assessment in terms of hours and rates. National Grid has not disclosed details of the costs involved in the processing of STTEC applications and without this information it would be impossible to estimate any additional costs of LDTEC assessment.

We expect that National Grid will review the application fees for STTEC and LDTEC and put forward appropriate cost reflective charges based on the true cost of processing applications. Given this can be a significant proportion of the overall access charge, it is important to ensure that the cost signals are as accurate as possible in order to best inform efficient and economic decision-making of potential providers of short term capacity.

We trust you find these comments useful.

Yours sincerely,

Simon Lord  
Transmission Services Manager

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### **RWE npower**

Thank you for the opportunity to respond to the above consultation.

RWE npower's view is that the introduction of an LDTEC product would not better facilitate the relevant CUSC objectives. Notwithstanding our objection to CAP094, we agree with the approach employed in GBECM03 and GBECM04 that an LDTEC charge should be based on principles consistent with the charging arrangements for STTEC in order to avoid perverse interactions between the two products.

The formula proposed for the LDTEC product beyond 17 weeks introduces a 'P' factor enabling LDTEC charges to be set at a premium to the equivalent TEC charge (for LDTEC usage just under a year in duration). **The P factor must be set above zero to reflect the following costs of LDTEC usage.**

- 1. Additional transmission network costs due to inefficiencies caused by poorer quality generation background information available for system planning<sup>1</sup>;**
- 2. The distortion of TNUoS tariffs resulting in inefficient locational signals for the siting of generation and demand.**
- 3. The increased risk of constraints (compared to STTEC usage) that has been acknowledged by National Grid in the CAP094 Working Group and Amendment Report.**

A non-zero P-factor is therefore necessary to ensure the efficient planning and operation of the transmission system and hence facilitate competition in the generation and supply of electricity.

Please do not hesitate to contact me should you wish to discuss our response to this consultation.

Yours Sincerely

Andy Manning  
Transmission Charging Manager  
npower

1. Analysis from the SKM report 'Technical Evaluation of Transmission Network Reinforcement Expenditure by Licensees in Great Britain' shows that the cost of mis-forecasting the generation background by 200MW could lead to unnecessary expenditure of £10m per annum. This demonstrates that the additional cost imposed on the system by the use of LDTEC could therefore be substantial, and suggests that a significant premium is appropriate.

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## **E.ON UK**

EON UK supports the above proposals and believes that National Grid has developed a solution which effectively links the charging methodologies for long and short term access products.

**Underlying principles**

We agree with NGC's conclusions on the main principles that should underlie the charging methodology for LDTEC. We have always considered TEC to be the primary transmission access product and feel that it is important that the charging liabilities associated with other access products do not undermine this. However, we also believe that the charges associated with shorter duration access products should only be set at a premium if it can be shown that:

- They are more valuable to Users;
- That there is an underlying cost driver which means that the products are more expensive to provide; or
- That there is a significant chance that they could undermine TEC.

The non charging related characteristics of TEC make it a far superior product for generators than STTEC or any of the proposed CAP094 products. Therefore, we believe that these in themselves protect TEC and that a charging premium is unnecessary.

We agree that the main characteristics which protect TEC are:

- That it provides certainty regarding the level of rights which will be available throughout the relevant year; and
- That it provides an option for the same level of TEC for the following year.

These are significant advantages for a generator which means that, other things being equal, TEC will always be the product of choice. Therefore, we agree with National Grid that there is no justification for the limited duration product to be charged at a premium. Indeed it could be argued that it should be provided at a discount, although to do so may risk undermining TEC.

We also believe that the charge for LDTEC should be linked to the prevailing rate of TNUoS tariffs for positive charging zones and collared at zero for negative zones. Although it could be argued that STTEC and LDTEC do not require additional investment in the system and therefore should not be charged in relation to a LRMC methodology, to not link the charges to TNUoS rates could significantly undermine TEC as the primary access product.

**The proposed methodology**

In our response to the initial thoughts consultation we stated that we preferred a peak charge methodology which recovered 90 percent and 10 percent of the TNUoS charge for access provided during the winter and summer periods respectively. We felt that this would provide a solution which was more consistent with the present charging methodologies for STTEC and TEC than the other options in the paper.

However, we believe that National Grid's more detailed proposal for the upfront charge provides a good alternative. We particularly welcome the clarification from National Grid regarding how the methodology would relate to a profiled product or the purchase of more than one period of access during the same year.

We also agree with how National Grid proposes to deal with situations where a generator has been granted a TEC and is simply using LDTEC until it can be provided. It is clear in these circumstances that the generator could not possibly be

undermining TEC and therefore should not be charged an additional charge for any LDTEC acquired up to the same level of capacity. To do otherwise could result in the generator being effectively charged twice compared with a generator who was provided with a similar level of capacity under a TEC alone.

Finally, we support the proposal that part of the request fee should be refundable, should an offer for an indicative profiled LDTEC be rejected, relating to the costs saved by avoiding further assessments on a rolling basis.

We note that the proposals for Multiple Contiguous Blocks of STTEC (MCB STTEC) are comparable with the methodology for LDTEC. Whilst we do not support the MCB STTEC product, we do believe that this consistent approach for its charging is correct.

We therefore support National Grid's proposals in both GB ECM03 and GB ECM04.

I hope that the above views prove helpful. Should you wish to discuss this further, please contact me on the above number.

Yours sincerely

Paul Jones  
Trading Arrangements