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5<sup>th</sup> November 2005

## **INITIAL THOUGHTS CONSULTATION Introducing a new charge for Limited Duration TEC**

Dear Adam

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, our response to National Grid's initial thoughts in the charging consultation are given below.

- **Whether or not it is appropriate to adopt the charging principles established by the introduction of STTEC for developing the charging arrangements for LDTEC;**

The charging principles established by the introduction of STTEC (and endorsed in OFGEM's decision letter on UoSCM\_M\_13) were that the charges should not undermine TEC and that the charges should therefore be locational. Given that LDTEC and STTEC share key characteristics, and that the shortest LDTEC product may be extremely similar to an STTEC block, it is vital that consistent principles are applied when developing the charging arrangements for LDTEC in order to avoid perverse interactions between the two products.

- **The differences between LDTEC and TEC and how, if at all, these protect or undermine TEC as the prime transmission access product;**

LDTEC differs from TEC in that it does not confer access right options for the following year. It also differs from TEC in that it may not be included in the generation input to the DCLF model used to calculate TNUoS tariffs. If LDTEC was available at a similar price level to TEC, leading to widespread uptake of the product, it could seriously undermine TEC as the prime transmission access product. This would reduce the accuracy of generation background information

available to NGC , creating inefficiencies in the planning and operation of the network and distorting the locational incentives provided by the TNUoS tariffs. An equally pertinent consideration is the importance of differences between LDTEC and STTEC. LDTEC could offer a more flexible access arrangement than STTEC which should be reflected in the relative prices of the two products.

- **The level of any premium needed to protect TEC, if any, and the justification for this level;**

A significant LDTEC premium is justified since the use of LDTEC rather than TEC would result in less reliable information being available for forecasting the generation background. This would impose additional costs on the system due to

1. Inefficiencies caused by poorer quality information available for system planning;
2. The distortion of TNUoS tariffs resulting in inefficient locational signals for the siting of generation and demand.

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.

- **Whether LDTEC charges should be derived from locational TNUoS tariffs in positive charging zones and zero in negative charging zones;**

LDTEC charges must be locational in order not to undermine TEC and to provide similar locational incentives for generation and demand to locate where it will benefit system security.

- ***The appropriateness of the tariff profiles identified;***

In order to ensure consistency between LDTEC and STTEC charging, the profile for the shortest LDTEC block must be flat. This would not create a discontinuity if the shortest LDTEC product was charged at a rate proportional to the increased duration of access.

An up-front profile may be justified since the value of flexibility increases for low load factor plant. However, the cost of access via LDTEC for periods approaching one year must be set at an appropriate premium over the equivalent annual TEC charge as justified above.

- ***How the “up-front” approach should treat multiple applications for LDTEC in the same year;***

Multiple applications for LDTEC in the same year should be treated as independent applications for charging purposes since they assessed independently at different times and therefore confer greater flexibility of access than single LDTEC applications.

- ***The most appropriate capacity driver for setting charges e.g. a peak /average / weekly approach;***

The most appropriate capacity driver is one which best reflects the costs imposed on the system. Since costs are driven by peak capacity, this should be the charging base used for LDTEC.

- ***Whether the use of TEC and an equivalent level LDTEC in the same year should be treated differently in charging methodology, as in these circumstances TEC has not been undermined by LDTEC; and***

The use of both TEC and LDTEC in the same year does not indicate that TEC had not been undermined by LDTEC. In such cases, the use of LDTEC would still reduce the quality of planning information available to National Grid and distort the TNUoS tariffs. There should therefore be no consideration of future TEC purchased within the year i.e. the charges for LDTEC and TEC should be completely independent.

- ***Whether the drivers for the LDTEC application fee are appropriate.***

STTEC assessments involve periods only 6 weeks in advance, whereas LDTEC assessment would involve periods up to a year in advance. Since the relative uncertainty due to outages etc. increases for longer access periods, the assessment complexity and hence cost should increase more than proportionately with the duration of access. The application fee should also be set at a level that ensures that system security is not compromised by the burden of numerous LDTEC applications by limited resource within National Grid.

We look forward to the opportunity to contribute further to the development of detailed charging arrangements for LDTEC prior to the publication of the formal modification proposals. If you wish to discuss any aspect of our response please do not hesitate to contact me.

Yours Sincerely

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npower