

RWE Innogy

RWE Innogy Comments on CCM-M-07
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Implementation of “PLUGS” – Change to Connection Boundary and associated removal of Land Charges and Type B Termination Charges AND Change to Calculation of Site Specific Maintenance Charges

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

Changes to the Connection Boundary

1. Innogy remains firmly opposed to the proposed change to the connection boundary. To subsume the vast bulk of connection assets within infrastructure would make the decisions concerning new connections, NGC Asset renewal, and connection terminations economically inefficient, thereby increasing costs for all users.
2. NGC has relied on the comments alleged to have been made by Users concerning the anomalies that may arise from the sharing of assets as restricting competition and thus justifying their ‘Plugs’ model. In this context it is worth referring back to the discussion and analysis that accompanied the referral of the treatment of termination amounts to Ofgem following the last connection terms review in March 1997. Although this referral was subsequently withdrawn, Ofgem indicated they would continue to investigate the issue. Their analysis showed that the reason why connection costs and termination liabilities could rise with the arrival of a new party to share assets was because of the provision of additional transmission capacity in discrete amounts which sometimes resulted in a the provision of capacity that was surplus to the needs of both connecting parties.
3. Innogy pointed out at the time that this problem could be dealt with by the incorporation of a simple rule that said a connected party at a shared site should not pay a connection charge, or be subject to a termination liability, that was greater than that which the user would have seen had it be the sole user at the site. It will always be more economically efficient for users to share assets. It is using a sledge hammer to crack a nut to suggest that it is necessary to move to the ‘Plugs’ model, with its attendant economic inefficiencies, to address this issue when, as Ofgem's own analysis showed, it could be addressed by a simple variation to the current allocation rules for shared sub-station assets.

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4. On page 14 of the consultation document, National Grid responds to a users concern that the locational signals for connection will be lost under Plugs. National Grid asserts that under Plugs, locational signals will appropriately transfer into TNUoS charges. However, this will only be the case if the large proportion of connection costs represented by substation assets is included in the expansion constant used to calculate the TNUoS charges. This will not be the case if both CCM-M-07 and UoSCM-M-10 are approved.
5. National Grid maintains that economic efficiency would be maintained under 'Plugs' through NGC's licence obligation, financial incentives and licence standards. We do not dispute that National Grid would continue to seek the most efficient solution to user's connection requests. However, it is the User's decisions that would become less efficient under the proposal as the cost signals of connecting at one location rather than another would be less accurate.
6. National Grid's argues on page 17 that the boundary change will not lead to discrimination against older generators as over the long term any cross-subsidising effects will balance out. Within this context, 'long-term' refers to a period of 40 years or which is more beyond normal period of economic assessment. National Grid's argument is based on the assumption that older assets will be replaced in all cases. It does not address discrimination against a generator approaching the end of its economic life whose assets will not be renewed.
7. To subsume connection assets in infrastructure would also sweep under the carpet the transparency and challenge that CAP012 was intended to introduce in the replacement of National Grid connection assets. The absence of a CAP012-style discipline will encourage uneconomic replacement of assets since there is no direct cost consequence from reflecting the needs of the Users at a site at the time of the asset replacement. In the above example, both NGC and the connected party would have an incentive to replace the assets after 40 years irrespective of whether it was economically efficient to do so.
8. The proposal would impose discriminatory costs on renewable and other embedded generation connected to the distribution network that is subject to TNUoS charges. Such generators will face an increase in TNUoS tariffs without any corresponding decrease in connection charges. They would effectively be supporting the connection costs of transmission connected generators within the generation zone. National Grid has not addressed this concern in the consultation document.
9. The proposed change to the connection boundary will need to recognise capital payments made by Users. Parties that had provided connection assets as "free issue" or those where the full capital cost had been paid at the outset may look for a rebate of the net value their earlier financial

contribution. Similarly, connection assets that had been subjected to the payment of termination amounts but remained in situ would automatically become infrastructure. This would lead to claims for a rebate of their net asset value in accordance with the principles covering termination amounts. It is expected that the payment of such compensations would presumably result in higher charges to all users.

Generation-Only Spurs

10. The concept of a generator spurs is economically efficient because it provides a strong siting signal by causing the cost of connecting a remote User falling on that User rather than the general body of customers. NGC has long used the example of the notional "Aberystwyth power station" to illustrate the economic consequences of abandoning generator spurs, whereby the power station is not exposed to the cost of its siting decision.
11. The difficulty with generator spurs is the lack of precision in their definition. This issue was referred to the Authority in March 1997 following the conclusion of the previous connection terms review, although the Authority declined to accept the referral on that occasion. In some instances transmission loops have been designated as spurs with little obvious justification. It is unfortunate that the consultation paper did not address the basis for their definition rather than asserting a conclusion that is directly contrary to that reached in 1997.

Land Charges

12. Notwithstanding our opposition to the change in the connection boundary, we recognise that were site infrastructure and land costs to be moved within infrastructure, it would be appropriate to remove Land Charges from the Connection Charging Methodology.

Termination Charges

13. Similarly, were the connection boundary to be such that there were no shared connection assets, "Type B" termination charges would clearly become obsolete and the Connection Charging Methodology should be modified accordingly.

Site Specific Maintenance

14. Despite various changes to the charging methodologies, the transparency of site specific maintenance charges remains as opaque as ever. Greater transparency is thus long overdue and is to be welcomed. Such transparency must enable Users to satisfy themselves that charges are reasonable, have been properly incurred and calculations made correctly.

15. An annual pass through of SSM costs (as proposed) may improve the visibility of when these costs are incurred. However, there needs to be an associated process that encourages transparency of the requirement for site-specific maintenance. There is no evidence to support National Grid's assertion that a CAP012 style process would be inefficient. It is reasonable to assume that greater transparency and accountability for these costs would result in efficiency savings. Whilst SSM costs are fundamentally smaller than those addressed by CAP012, they nevertheless amount to several million pounds a year. The creation of such a process would merely require a slight extension of National Grid's existing internal approval process to include the affected user. As such, we fail to see why it would be highly bureaucratic, time consuming or difficult. Even a small percentage improvement in maintenance efficiency would justify what should be minor costs of administration.