

GRANGEMOUTH CHP LIMITED

GUS Building
PO Box 30
Bo'ness Road
Grangemouth
Stirlingshire
FK3 9XQ

Tele: 01324 477626
Fax: 01324 477633

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Stuart Easterbrook
Transmission Charging Manager
National Grid Company plc
NGT House (Floor C3)
Gallows Hill
Warwick
CV34 6DA

GCHPL-B100-014

Dear Mr Easterbrook

December 2003 Consultation Paper: GB Transmission Charging: Initial Thoughts

Fortum Group, owner of Grangemouth CHP Ltd, welcomes the opportunity to respond to this consultation.

Background

Connection and use of system charging in Scotland has been subject to regulatory scrutiny and controls over a number of years, with the guiding principles of that regulation being cost-reflectiveness, non-discrimination, and efficiency. Against that back-drop, a body of experience has developed in Scotland as to the level of charges and their underlying drivers.

Choice of Use of System Charging Methodology

We support the broad principle that GB users should pay for the GB system with cost-reflective and non-discriminatory cost recovery on a GB-wide basis rather than sub-divided within GB. However, we have concerns regarding the choice of methodology for establishing cost-reflective use of system charges, for both practical reasons and because of the underlying principles.

In practical terms, we note that the "trends continued" application of the existing use of system charging methodology outlined in the current consultation paper will result in very substantial departures from historically established norms for levels of use of system charging. Changes of this magnitude, especially against a historic background of stable UoS charging regulation and increasing transmission system cost efficiency in Scotland, are likely to leave generation assets in Scotland stranded by virtue of UoS charging far in excess of that provided for in their financing.

Should this practical issue not be addressed as we suggest below, we would wish to see some form of transitional arrangements over timescales which reflect realistic asset lives which shield peripheral generation and demand from step-changes in charges which their financing could not support .

We see this practical side-effect as demonstrating that the existing England and Wales use of system charging methodology may not be applicable to the full GB system.

The current England and Wales methodology, modified as proposed in the current consultation document, is not the only methodology which could be said to be cost-reflective, and in fact contains shortcomings which – whilst evidently tolerable in an England and Wales context – render it discriminatory in the context of the GB system. Those shortcomings have their origins in basing the charges at a particular zone on the incremental cost of the next capacity to be connected at the zone, rather than on the cost of the capacity already connected. One consequence of the particular methodology which has been chosen is the creation of unrealistically sharp locational signals at nodes towards the periphery of the system.

We would be happy to expand on our views should that be required.

Yours sincerely

Ilkka Toijala
Asset Manager