



International Power plc
Senator House
85 Queen Victoria Street
London
EC4V 4DP

Tel +44 207 320 8600

Richard Lavender
Senior Commercial Analyst
Commercial
National Grid Company Plc
NGT House (Floor C3)
Warwick technology Park
Gallows Hill
Warwick CV34 6DA

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Dear Richard

GB Transmission Charging: Final Methodologies Consultation Response

Note this response is made on behalf of the Rugeley and Deeside Power Stations owned by International Power Plc. Our company has no “home market” and as such we operate on a worldwide basis under a variety of different commercial arrangements.

Thank you for the opportunity to comment on this consultation issue. We would like to raise the following: -

1. Extension of transmission arrangements to all of GB

International Power has always been fully supportive of cost reflective transmission charging in England and Wales. This has been in operation for over 10 years and is well understood by plant operators and developers. As we move to BETTA it is essential that we continue with this approach. Any proposal that dilutes genuine locational signals will clearly distort the market and dilute the benefits of moving to BETTA. Scottish generation companies have historically been protected and subsidised, hence if we are all to benefit from BETTA, we must have the correct cost reflective charges – Scenario B best meets these requirements.

2. Basis for charging

We believe that all generators connected to the GB system should pay TNUoS charges based upon the transmission assets involved. The voltage of connection should not in itself be a determining factor for charges – but the cost of the transmission assets involved. Whilst we accept, that under the existing shallow charging for connections there is a dilution to the connectee of the real costs of connection, any further dilution would clearly be detrimental to

genuine market signals. At present there is a clear need for a transparent and fully cost reflective approach to GB Transmission Charging.

3. EU regulation on transmission charging

We note that under the Guidelines for Transmission Charging relating to the European Commissions Regulation on Cross-Border Trading, there is a target of harmonisation of generator use of system charges by 2008 that will lead to average generation use of system charges to be zero. Scenario B is a significant step towards the potential EU requirement and will reduce the magnitude of subsequent changes in average generation charges over the coming years. This will assist budgetary and planning forecasts for all parties involved.

4. Multi-voltage expansion factors

Over the last two years significant work has been done to use multi-voltage expansion factors for TNUoS charges on the England and Wales power system. This issue was consulted on at length and there was consensus opinion within the English and Welsh generators that this was seen as the appropriate way forward. This was further approved by OFGEM and was seen as being compliant with European Union Regulation. It would seem a massive contradiction if what was agreed as being correct for England and Wales in April 2004 was incorrect when Scotland is added in 2005. The Scottish grid system does not appear to have any unique features that would not allow it to be modelled in the existing framework. In addition we regard the NGC approach to estimating the proportion of 132kV that will be upgrade to 400kV to be a pragmatic approach based upon best available data.

5. Stability

We believe that whilst stability of tariffs is desirable, it is not essential. Volatility is an inherent feature of a competitive market and the UK power market has shown itself to be robust to volatility in both fuel and electricity pricing. The UK has sought, through a number of measures, to establish a truly competitive power market that provides appropriate signals for new entry and plant closures, TNUoS charges that are fully cost reflective can only strengthen the competitive position and therefore be in the best interests of the consumer. As a parallel example - parts of the UK have locational advantages that allow lower fuel costs – there is no cross subsidy scheme. We therefore support the view that Scenario B is more cost reflective and as stable as Scenario A.

6. Scotland and Renewables

A cursory analysis of the proposed charging methodology would show that this would increase TNUoS charges for Scottish generators. We note however that NGT has taken external advice that shows overall charges for Scottish generators will be broadly neutral – this gives us confidence that Scenario B could not be seen as being disproportionate or discriminatory. This shows that there are considerable advantages to Scottish generators through the advent of BETTA. We also note concerns of others that the GB Transmission Charging Methodology would disadvantage Scottish renewable generation. As a worldwide generator presently developing renewable projects in England, Wales and Scotland, we see that most renewable schemes require some form of subsidy. However it is not the role of TNUoS charging to subsidise renewable projects and the charging methodology should be kept as cost reflective as possible to encourage investment in renewable generation to be made in the correct location

taking all factors into account. We understand that currently there are numerous applications for generation connection in Scotland – this will further complicate the situation in Scotland leading to potentially higher charges.

7. Due process

This issue is clearly significant for all parties under the GB Transmission System and we would compliment NGC for the way they have run this consultation process and made available software and experts to ensure that all parties have had the opportunity to fully understand the issues behind such a complex subject. We would hope that this process could now be concluded in line with NGT timetables in order to allow the ESI to confirm budgetary and planning forecasts for 2005 and beyond.

8. Summary

We are supportive of the Scenario B option of the GB Transmission Charging Final Methodology as presented by NGC on 20 August with subsequent amendments on 14 September. We look forward to this being presented to the Authority as the sole option that best meets the overall needs of all parties. If you wish to discuss any issues please contact David Leich, Station Manager Rugeley Power Station david.leich@ipprugeley.com

Yours sincerely

Dr Stephen Riley
Executive Director, Europe