

25 May 2004

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Dear Stuart

### **Re: GB Transmission Charging Initial Methodologies Consultation**

Thank you for the opportunity to respond to National Grid Transco's GB Transmission Charging Initial Methodologies Consultation. I have outlined below the points that Gaz de France ESS would like to raise in relation to this subject.

#### **Facilitation of Competition**

One of the licence conditions of the GBSO is that the Transmission Charging methodologies should facilitate competition in all areas from generation to supply. It is unclear how the proposed methodology will achieve this. In the initial consultation, one respondent commented that the generation tariffs proposed for the Scottish areas appeared very high and would therefore not facilitate competition, in line with the BETTA project objectives. National Grid responded that they are developing the GB methodology based on a number of objectives, which include facilitating competition and that they believe that the existing E&W charging methodologies facilitate competition as does a single GB expansion factor.

Gaz de France ESS believes that the proposed TNUoS tariffs for Demand and Generation in some locations appear high and do not effectively encourage competition. We would like National Grid to expand on their initial comments and clarify how they will facilitate competition.

#### **Risks to suppliers during Transition**

Gaz de France ESS would also like to see a clear indication of expected TNUoS charges given early in the process to allow Suppliers and Generators to quantify costs and continue to manage the risks to their

business effectively during the period before and during the implementation of BETTA.

### **Inequities of Charging Methodology**

Gaz de France ESS is concerned that the increasing levels of TNUoS discriminate both against smaller suppliers and demand users.

Smaller suppliers are less easily able to absorb the risks associated with TNUoS in some commercial contracts and increasing the levels of TNUoS increases this risk potentially to a level that smaller suppliers cannot compete on these type of contracts.

Demand users would appear to be bearing a disproportionate burden of the costs of a GB system, leading to an increase in TNUoS tariffs compared to England and Wales, whilst generators will see reductions. Further, Gaz de France ESS is concerned about the high increase in costs to Demand Customers and the impacts this may have on their business. These concerns may be removed if there were more Demand Side participation.

### **Expansion Factors**

Having reviewed the National Grid proposals for Single vs Multi-voltage expansion factors for GB charging, and considered the relevant licence objectives, Gaz de France ESS believe that it is correct to properly reflect costs of the Transmission System. Hence Scenario B, use of a multi-voltage expansion constant, is the correct methodology for GB charging under BETTA.

### **Reconciliation of England and Wales TNUoS**

The methodology proposed for reconciliation of E&W TNUoS over or under recovery represents an unacceptably high risk to suppliers. Suppliers may not be able to recover any charge imposed on them from customers who have moved on to other suppliers. This could lead to an unfair additional "hit" on suppliers or this charge being passed on inequitably to demand users. Such a situation could disadvantage some market participants and harm competition. Gaz de France ESS contends it would be better that in the first year of BETTA only, E&W over or under recovery be added to just the England and Wales TNUoS zones after the calculation of the GB tariffs. This smears this charge more transparently for demand users.

### **Renewables in the Highlands and Islands**

Under section 4.3.7 of the Initial Charging Methodologies consultation, National Grid outline some issues from Part 2 of the Ofgem/DTI August 2003 consultation. Gaz de France ESS is concerned at the additional uncertainty that the proposals for a TNUoS rebate and commodity levy on suppliers causes both now and going forward.

The level of discount or the tariff cap is unknown and this introduces further uncertainty regarding the level of qualifying generation. As such suppliers have no view of what this unrecovered revenue will amount to and how it is to be recovered.

It seems inequitable that demand users, who already are subject to Climate Change Levy and potentially Renewables Obligation charges, be forced to pay an additional “tax”. Further this measure is counter to the principle of the TNUoS charges which gives an incentive to locate generation close to demand and would appear to discriminate against those who choose to locate renewable generation close to centres of demand.

#### **Substation Costs**

Gaz de France ESS would like to raise the issue that substation costs may not necessarily be “non-locational” as asserted by National Grid. Even if a substation costs a similar amount to build in varying locations across the UK, it seems right that it should be included in the assets of the location it is built or operated in, not smeared across the UK as now.

#### **Circuits with spare capacity**

These have been ignored under the proposed charging methodology, which we feel is at odds with the GBSO licence obligation to fairly reflect the costs incurred in running the System and take into account the entire Transmission business.

#### **Site Specific Maintenance (SSM)**

Gaz de France ESS agrees with National Grid in it’s belief that SSM charges should be consistent across GB to ensure charges are non-discriminatory.

National Grid has stated that is not convinced that the costs of implementing an E&W type SSM regime in Scotland can be justified at this time, but has not substantiated this claim.

National Grid also indicates a review of the contestable maintenance arrangements may be appropriate to ensure the processes are effective and efficient, deliver the necessary benefits, and are appropriate for implementation on a GB basis, taking account of the vertically integrated nature of the electricity industry in Scotland. However no indication is given of when and how this would be conducted. To enable the industry to make an informed decision, we would like National Grid to provide more information in this area, specifically to address the points raised here.

**Commercial Balancing Services in Scotland**

With the unification of the Transmission system into a single GB entity, there will be a single market for Commercial Balancing Services in the UK. In order to allow full competition in this area of the market for E&W players National Grid must make clear very early on in the BETTA process what Commercial Services are required in Scotland and the terms and conditions that will apply to them. Failure to do this will delay competition in this area by at least a year, and may even prevent fair competition ever being achieved.

**Generation Demand Split**

In the consultation document, National Grid indicate that the Generation Demand Split will not be reviewed as part of this consultation as no single ratio could ever be shown to better meet NGT's objectives than any other. However in option 2, it is noted that the G:D split is set to 80:20 to remove the negative demand charges in northern Scotland. Gaz de France ESS is concerned that having said there is no good reason for change, that a change is proposed. We would prefer to see the issues around G:D split properly tackled with a defined and reasoned methodology for any change, ensuring full transparency.

I hope the issues outlined above are clear and concise, however if I can provide any additional information, please feel free to contact me.

Yours sincerely

**Russell Reading**  
**Products and Services Manager**