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Dear Stuart

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

I refer to the above consultation document issued by NGC dated 8 April 2004. Please find below the response from Magnox Electric plc.

With regard to the proposed GB charging methodologies outlined in Section 4 of the document, we would comment as follows:

### **1. GB Connection Charging Methodology**

We support the proposals made in respect of ownership boundary, GAVs, annual GAV revaluation, site specific maintenance, transmission costs and customer choice.

### **2. GB Use of System Charging Methodology**

(a) Multi Voltage Expansion Factors: we support the use of multi voltage expansion factors. We agree with NGC that this is the most cost reflective approach and the one which most closely accords with the relevant licence objectives for charging methodologies. In comparing the relative merits of single versus multi-voltage expansion factors, we would observe:

- Multi-voltage expansion factors better reflect the actual marginal costs of providing additional capacity at the relevant voltage.
- We agree that there is merit in avoiding short term volatility in user charges, however the principle of cost reflectivity should apply over the longer term. We believe that the underlying approach that NGC should

adopt should be to use a DC load flow model to generate cost reflective charges at the nodal level, and then use the generation zoning criteria to introduce stability in charging. Within this context, multi-voltage expansion factors are clearly more appropriate.

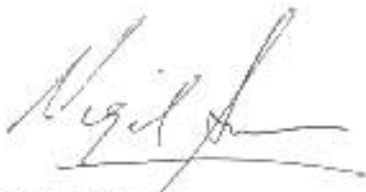
- We would not expect significant volatility in user charges to be introduced as a result of changes in development plans for networks, which is one of the arguments discussed in the paper which might support the use of single voltage expansion factors. We would expect developments such as uprating voltages to be planned some time in advance, and visible to users via published information from NGC. Additionally, decisions to uprate parts of the network currently operating at 132kV voltages would, in isolation, tend to reduce the charges incurred by users connected in that area; it would not, therefore, of itself give rise to stranded assets.
- It has been suggested that providing more stable charges would facilitate competition – most obviously in altering the risk profile and hence financeability of new generation projects. Providing stability in charges for users over time can only be achieved by sacrificing other desirable characteristics of a charging methodology. It may, for example, result in some users paying higher charges than would be justified by cost reflective charging. This could result in the profitability of generation assets subject to excess charges being reduced, and those assets being retired – which could act to reduce competition. Departures from cost reflective charging could influence siting decisions by new users, and result in the transmission network developing in an inefficient manner. Overall, we do not believe that sufficiently strong arguments have been presented to justify departing from a cost reflective approach in this area.

- (b) Generation zoning: we agree that generation zones should be reviewed during the establishment of initial GB TNUoS tariffs. We note that NGC state that a rezoning exercise would normally only occur at the start of a regulatory price control period. In our opinion this is no more valid than stating that any aspect of the charging methodology should only be revisited at the start of a regulatory price control period. We would expect NGC to review, at least annually, the extent to which generation zones meet the criteria that are set down in the charging methodology and bring forward revisions for subsequent years where these are indicated. As noted above, in a developing network more frequent review of charging zones may increase the stability in charges to existing users. This is particularly the case where application of the current zoning criteria following new transmission investment would justify the creation of additional zones – a point that was highlighted in the England & Wales charging review when "generation only spurs" were abolished.

- (c) GB security factor: we support the principle of developing the methodology such that the simplified DC load flow model with a security factor mirrors as closely as possible the results of the full secure DC load flow model. We believe that, based on data published in the June 2003 consultation on E&W charging methodologies, the current model with a simple security factor systematically overestimates the nodal costs in some areas compared to the full secure DC load flow model. We therefore welcome further developments in this area, which may include the "least squares fitting" approach suggested by another user.
- (d) Renewables in the Highlands and Islands: we agree with NGC that the GB charging methodologies should be guided by the relevant licence objectives, and that any mechanisms to provide support for particular forms of generation should operate outside the charging methodologies.

I trust the above is helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel Burrows', with a horizontal line underneath.

Nigel Burrows  
Regulation and Market Access Manager