

CONSULTATION DOCUMENT

GB ECM 007

**Adjustment of Seven Year Statement Transmission
Entry Capacity Data for Calculating 2007/8 TNUoS
Tariffs**

January 2007

Table of Contents

1.	Executive Summary	3
2.	Introduction	3
3.	Background	4
3.1.	Application.....	4
4.	Assessment of Proposed Modification	5
4.1.	Proposal description	5
4.2.	Impact on other industry documents	6
4.3.	Implementation timetable and date	6
5	Consultation Responses	7
Appendix 1 – Proposed drafting of the Statement of Use of System Charging Methodology		8
Appendix 2: Changes to draft TNUoS Tariffs after correction for revised power station TEC		9

1. Executive Summary

This consultation document sets out an urgent amendment to the Transmission Network Use of System (TNUoS) Charging Methodology to allow an update of the data on which the 2007/08 tariffs are based. The current methodology specifies that the data is sourced from the October update of the Seven Year Statement prior to a charging year.

Since the October SYS update, three power stations which were due to connect have postponed their connection date. The inclusion of these power stations in the transport and tariff model significantly affects the cost reflectivity of tariffs. An amendment is proposed to the Statement of the Use of System Charging Methodology, to allow a one-off update of the generation data within the transport and tariff model in order to include these changes and therefore calculate more cost reflective tariffs for 2007/8 only. This would be followed with a wider consultation on an enduring solution to the issue next year.

The document has been published on the National Grid charging website at the following address:

www.nationalgrid.com/uk/electricity/charges

2. Introduction

As the transmission licensee authorised to co-ordinate and direct the flow of electricity onto and over the transmission system within Great Britain, National Grid has duties under the Electricity Act to develop and maintain an efficient, co-ordinated and economical transmission system and to facilitate competition in generation and supply.

Along with these high level duties, National Grid is obliged under its transmission licence:

- (i) to keep the Use of System Charging Methodology at all times under review
- (ii) to make such modifications of the Use of System Charging Methodology as may be requisite for the purpose of better achieving the relevant objectives, which are:
 - a) to facilitate effective competition in generation and supply;
 - b) to result in charges which reflect, as far as reasonably practicable, the costs incurred by transmission licensees in their transmission businesses;
 - c) in so far as is consistent with a) and b) above, as far as reasonably practicable, they properly take account of the developments in transmission licensees' transmission businesses.

In addition to the relevant objectives above, the transmission licence also prohibits National Grid from discriminating against any User or class of Users unless such different treatment reasonably reflects differences in the costs of providing a service.

Before making a modification to the Use of System Charging Methodology, National Grid is required, by the transmission licence, to consult with CUSC Users on the proposed modification. Unless it has been agreed otherwise with the Authority, a

period of not less than 28 days is then allowed for Users to make written representations. National Grid is following the User consultation process where possible but the consultation period is restricted to 11 days as a consequence of short timescales. The restricted timescales will be fully reflected within the final conclusions report to the Authority. The Authority has the right to veto the amendment.

The purpose of this document is to set out for consultation National Grid's proposal to modify the Statement of the Use of System Charging Methodology so as to ensure that, if available and practicable, the most accurate Transmission Export Capacity values are used to produce 2007/08 TNUoS tariffs as opposed to purely those submitted for the GB Seven Year Statement (SYS) October update.

3. Background

The Statement of the Use of System Charging Methodology sets out the transport model inputs on which Use of System Charges are based. Section 2.4 states:

“For 2006/7, the nodal generation data for the transport model will be derived from the GB Interim Seven Year Statement, which will contain the contracted generation Transmission Entry Capacity (TEC) for England and Wales or equivalent ‘export’ capacity for Scotland and include all notification of changes in generating capacity received by end of October 2005. Thereafter, for charging year “t”, the nodal TEC figure at each node will be based on the Applicable Value for year “t” in the GB Seven Year Statement in year “t-1” plus updates to the October of year “t-1”. The contracted TECs in the GB SYS include all plant belonging to generators who have a Bilateral Agreement with the TOs. For example for 2007/8 charges, the nodal generation data is based on the forecast for 2007/8 in the 2006 GB SYS plus any data included in the quarterly updates to October 2006.”

Applicable Value is defined as “The highest contractual Transmission Entry Capacity figure for year “t” provided to National Grid in line with the process laid out in the CUSC up to and including 31 October in year “t-1” for publication in the October update of the SYS”.

3.1. Application

Indicative charges for 2007/08 have been calculated based, as the Methodology dictates, on contractual generation background as updated by the SYS October 2006 quarterly update. Without a change to the methodology, the final tariffs would be based upon this original dataset.

If a generator wishes to delay connection, a connection modification application would be submitted. National Grid would produce a revised connection offer which is only fed into the generation background upon customer signature. If this process is not completed by the end of October the amendments will not factor in the following year's charge setting.

Recently three power stations, due to connect within 2007/8, have delayed their connection date outside this period. Currently, there is no mechanism to allow either modified and signed connection agreements or official modification applications to be considered after the end of October. As a result, for the 2007/08 charging year a substantial inaccuracy would be carried through which would affect all TNUoS tariffs for all demand and generation tariffs.

National Grid's Transmission Licence has a relevant objective to provide cost reflective Use of System charges and therefore it is felt that this may not be achieved without an urgent amendment to be implemented for the 2007/08 charging year.

National Grid believes that the problem is best dealt with in two stages, the first being an immediate amendment for the charging year 2007/08 to prevent charges which are not cost reflective being levied whilst giving sufficient notice to minimise any impact on the industry. This will be followed up, during 2007, with a further consultation on a more enduring solution. The requirement for this amendment may in part stem from the ability of Generators to book future transmission capacity in advance at zero cost. Forthcoming developments within the area of User Commitment (CAP131) are expected to have an impact in this area and therefore should be considered fully.

4. Assessment of Proposed Modification

4.1. Proposal description

The proposed amendment is to revise the nodal generation data used this year for TNUoS charge setting to include any generator that has formally informed National Grid by 23rd December 2006.

Sensitivity analysis has been performed to assess the net effect of removing the three generators from the transport and tariff model would have for the 2007/08 tariffs, for both TNUoS tariff levels and zonal boundaries and the results are discussed below.

Zonal boundaries for generation and demand will change as specified within the indicative charges¹ published by National Grid on 20 December 2006 with the exceptions:

- Bolney and Didcot will **no longer** be moved from the generation zone 'Oxon & South Coast' to 'Wessex'
- Finlarg and Lochay will **no longer** be moved from the generation zone 'Central Highlands' to 'Stirlingshire'

Chart 1 below shows the magnitude of change that would occur for each of the 21 generation zone tariffs if the new information is taken into account. The majority of zones will remain mainly neutral with a substantial decrease in charges in the areas nearest the delayed generation projects.

Chart 2 shows the resulting effect on all the 14 demand zone tariffs. The zones of South Wales (10) and South Western (14) see significant increase to demand tariffs from the loss of generation within zones. Absolute revised tariffs and differential values are presented within appendix 2.

¹ www.nationalgrid.com/uk/Electricity/Charges/usefulinfo/

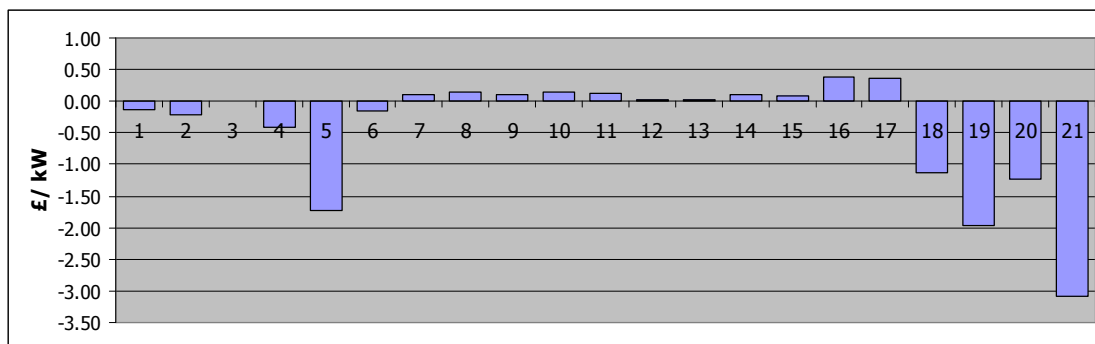


Chart 1: Generation TNUoS tariff changes by zone

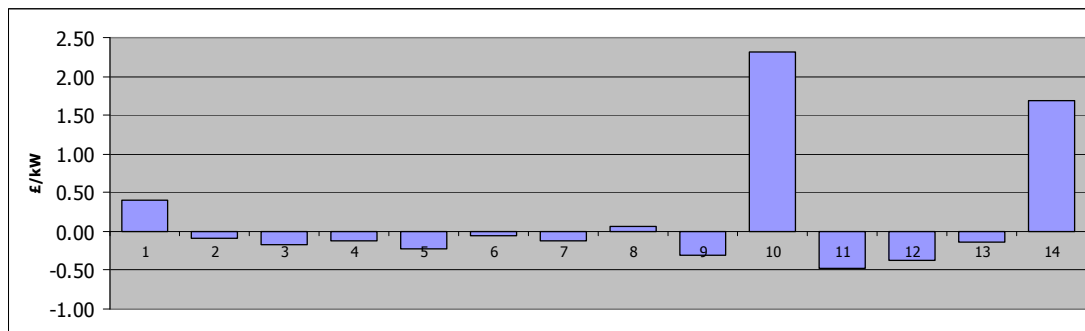


Chart 2: Demand TNUoS tariff changes by zone

In assessing the amendment, a determination has to be made on the urgency or requirement to reflect the known changes to the generation base within the transport and tariff model for the forthcoming charging year. National Grid accepts that the generation profile is dynamic and that the transport and tariff model is inherently a proxy to allow the apportionment of Use of System charges and that the procedure has been followed as set out in the Statement of the Use of System Charging Methodology. Notwithstanding the above, National Grid believes that both the wide ranging effects and the simple mechanism for correction justify a proactive response.

National Grid believes that the risk of non-cost reflective charges is more significant than any issues associated with the short notice adjustment of tariffs, as proposed within the amendment.

A balance must be struck between determining charges based upon 'best guess' scenarios just before real time and only considering contractually confirmed changes with a cut-off date way in advance of time.

4.2. Impact on other industry documents

The Statement of the Use of System Charging Methodology will be modified, as specified in appendix 1. It is not anticipated any other industry documents will require amendment.

4.3. Implementation timetable and date

This amendment will be discussed by the industry at the Charging Issues Standing Group meeting on the 18th January. Responses to the consultation will be received by close of play on Friday 19th January. National Grid believes that as a consequence of the simplicity of the amendment and the advantages of a rapid implementation, an 11 day consultation period is most appropriate for this amendment.

National Grid will submit a conclusions report to the Authority, which it is anticipated will allow a veto/ non-veto decision to be provided that will allow final tariffs to be published with the notice period as required by the Connection and Use of System Code. If the proposal is not vetoed National Grid will implement the modification for the final 2007/08 TNUoS tariffs.

5 Consultation Responses

Comments and views are invited on the issues raised in this consultation document. In order to fulfil the extremely tight deadlines required to meet the implementation for the charging year 2007/08 and as a result of the simplicity of the amendment, National Grid propose that the full 28 days of consultation is not required.

To ensure that your comments and views are considered as part of National Grid's Conclusions Report to the Authority, responses must be received by close of business on **Friday 19th January 2007**.

If you wish to provide comments on this consultation document, responses are welcome via email to: Thomas.Ireland@uk.ngrid.com

Alternatively, Users can send their comments in writing, addressed to:

Tom Ireland
Electricity Charging & Access Development
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If you have any further queries, please do not hesitate to contact Tom on 01926 656152.

Appendix 1 – Proposed drafting of the Statement of Use of System Charging Methodology

Deriving tariff discounts for customer choice design variations

2.4 “For 2007/08, the nodal generation data for the transport model will be derived from the GB Interim Seven Year Statement, which will contain the contracted generation Transmission Entry Capacity (TEC) for England and Wales or equivalent ‘export’ capacity for Scotland and include all notification of changes in generating capacity received by 23 December 2006. Thereafter, for charging year “t”, the nodal TEC figure at each node will be based on the Applicable Value for year “t” in the GB Seven Year Statement in year “t-1” plus updates to the October of year “t-1”. The contracted TECs in the GB SYS include all plant belonging to generators who have a Bilateral Agreement with the TOs. For example for 2008/9 charges, the nodal generation data is based on the forecast for 2008/9 in the 2007 GB SYS plus any data included in the quarterly updates to October 2007.”

End of appendix 1

Appendix 2: Changes to draft TNUoS Tariffs after correction for revised power station TEC

Generation		Draft Tariffs Without 3 Generators	Draft Tariffs With 3 Generators	Differential after Proposed Amendment
Zone No.	Zone Name	Zonal Tariff (£/kW)	Zonal Tariff (£/kW)	Zonal Tariff (£/kW)
1	Peterhead	19.23	19.36	-0.13
2	North Scotland	21.59	21.81	-0.22
3	Skye			
4	Western Highland	19.85	20.27	-0.42
5	Central Highlands	16.43	18.15	-1.72
6	Argyll	14.67	14.82	-0.15
7	Auchencrosh	10.13	10.02	0.11
8	Stirlingshire	14.03	13.89	0.14
9	South Scotland	13.01	12.90	0.11
10	North East England	9.25	9.11	0.14
11	Humber, Lancashire	5.88	5.75	0.12
12	Anglesey	6.40	6.38	0.02
13	Dinorwig	9.28	9.25	0.02
14	South Yorks & North Wales	3.99	3.88	0.11
15	Midlands	1.97	1.87	0.09
16	Central London	-5.72	-6.09	0.37
17	South East	0.90	0.54	0.36
18	Pembroke	-0.27	0.86	-1.14
19	South Wales & Thames Valley	-2.46	-0.49	-1.98
20	South Coast	-4.10	-2.87	-1.24
21	Peninsula	-8.57	-5.49	-3.08

Demand		Draft Tariffs Without 3 Generators	Draft Tariffs With 3 Generators	Differential after Proposed Amendment
Zone No.	Zone Name.	HH Zonal Tariff (£/kW)	HH Zonal Tariff (£/kW)	HH Zonal Tariff (£/kW)
1	Northern Scotland	0.84	0.43	0.41
2	Southern Scotland	5.75	5.83	-0.08
3	Northern	9.28	9.45	-0.17
4	North West	13.04	13.16	-0.13
5	Yorkshire	13.01	13.22	-0.22
6	N Wales & Mersey	13.48	13.53	-0.06
7	East Midlands	15.76	15.89	-0.12
8	Midlands	17.20	17.14	0.06
9	Eastern	16.45	16.76	-0.31
10	South Wales	20.93	18.61	2.32
11	South East	19.47	19.95	-0.48
12	London	21.56	21.93	-0.38
13	Southern	20.49	20.63	-0.14
14	South Western	23.16	21.48	1.68

End of Appendix 2