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**Re: Consultation Document, GB ECM-09 – For the charging arrangements associated with SQSS design variations based on customer needs**

Dear Tom,

Centrica welcomes the opportunity to comment on the consultation document concerning the charging arrangements associated with SQSS design variations based on customer needs.

In principle, Centrica supports actions to support competition and customer choice. However, in regards to the SQSS standards, if these are the standards agreed then these must also be the accepted minimum standards to support economic and efficient investment decisions in the transmission network. Any investment lower than the SQSS deemed economic and efficient seems to undermine the concept of 'a' standard by which to operate a transmission system safely and securely for supply.

Notwithstanding this point, the SQSS does allow generators to connect to the transmission network at a lower standard subject to certain conditions. Due to this, certain transmission infrastructure asset savings (capital savings) are realised and under the existing charging methodology are shared amongst all users, rather than having all the savings passed directly on to the generator/connectee. In light of this and the Authority's decision in February 2007, Centrica's response for the application of a discount to TNUoS tariffs for users opting for single circuit connections follows below.

In summary, when trying to balance the objectives of cost reflectivity and power station location signalling in the TNUoS charging methodology, Centrica supports the following proposals:

- No substation asset discount;
- A single circuit discount based on a nodal specific security factor calculated using a generic formula;
- A circuit partial redundancy discount based on a generic formula;
- Offshore connections **are not** subject to the same discounts as onshore.

## **Design Variation Substation Asset Discount**

Centrica is in agreement that no substation asset discount should be applied to TNUoS rates. It is evident that the Use of System charges are meant to be cost reflective as well as act as a locational signal for investing in generation. With the substation discount, combining the two objectives together in an investment decision may lead to generation siting further from demand centres, which will require additional increased investment in the transmission infrastructure (hence, this is counter intuitive the to the rationale for providing the discount in the first place).

This effect would in turn increase costs twice for users of the system, and demand users will proportionately pay more under the 27/73 split. It is inferred from Appendix 1 regarding the residual tariff that demand users would pick up 73% of the cost of the increase of the additional assets (included in target revenue) and 73% of the cost of the substation discount. As demand users already pay the majority of TNUoS costs, having to pay even more due to an unintended investment signal would definitely be uneconomic and an inefficient use of funds.

If the appropriate signal is made and less infrastructure is built due to a lower standard of connection, then the cost of the discount should effectively be netted off by the decrease in target revenue. This is difficult to achieve with the substation discount as in all options there is the risk of the locational signal being weakened, thereby risking more infrastructure being built.

Since the costs of substation assets are charged on a 'shallow' basis meaning generators do not pay the full cost of these assets, there is less of an argument for having the substation discount at all.

## **Circuit Asset Discount**

### *Single Circuit Discount*

When assessing the circuit asset discount, Centrica agrees that the project specific discount is inconsistent with the use of system charging methodology. Based on the results calculated by NG in Appendix 4 a project specific discount would provide a perverse incentive signal possibly necessitating the need for more transmission asset investment, not less. As this would inherently result in increased costs for all users, beyond the cost of the actual discount, Centrica believes the risk of using the project specific discount is not warranted. Using the nodal specific security factor would also involve significant costs to make the discount transparent, hence Centrica rejects using this factor for the same reasons stated above.

As it is clearly apparent that it is difficult to provide a true cost reflective discount in the TNUoS tariff since it is also used as a signal for power station location, some compromise needs to be made. Centrica agrees with using the nodal specific generic formula approach for the circuit discount as it best provides a balance between the two objectives above. The compromise made is that the discount may not be fully cost reflective, however, all options proposed have compromises and some include the risk of additional cost. Indeed, the only cost reflective option is the project specific approach, yet it is not consistent with the TNUoS charging methodology which is a crucial flaw.

In addition to representing a good balance between cost reflectivity and signalling, the other benefits of the nodal specific generic formula approach are consistency with the TNUoS charging methodology, transparency, and predictability. These benefits are seen to outweigh the drawback of not being fully cost reflective. Overall, in regards to perverse signalling and increasing costs, the nodal specific generic approach is considered to be justified and the less risky option of the three.

## **Partial Redundancy Discount**

For the same reasons as highlighted for the circuit asset discount, Centrica supports the use of a partial redundancy discount based on a generic formula.

### *132kV Uprating Factor*

Centrica agrees with the view of not changing the derivation of Expansion Factors in the current Price Control, however, we would support their review at the start of the next Price Control review period.

## **Offshore**

Centrica feels that it is premature at this stage to confirm that offshore connections should be subject to the same SQSS discount mechanism as for onshore for two main reasons. Firstly, the actual charging boundary for the offshore transmission network has not been confirmed, nor has the consultation document been issued yet.

Second, it is stated that the drafting of the Offshore SQSS allows offshore connections to be of a lesser standard to that of onshore connections, yet the offshore connections *will be* compliant with the offshore SQSS. If this is the case, then there should be no need for a discount. Offshore users who connect at the offshore 'standard' requirement should not also be entitled to a discount as this undermines the whole concept of having a (an offshore) standard. The fact that successful tender bids *may* contain route capacity above the total TEC required under offshore SQSS does not mean the connectee should be eligible for a discount (nor should pay higher TNUoS charges). The connectee has not asked for the additional security, and all other users of the system should not have to pay for the cost of the additional security that the offshore OFTO decided to construct. If additional security is required over and above the agreed offshore SQSS industry standard, then this cost should be recovered via another mechanism such as a bilateral agreement between the affected connectees and OFTO, and not through TNUoS.

Clearly, the particular security standards with offshore highlighted in the consultation and the difference between offshore and onshore connection costs, firmly supports the view that the offshore connection/use of system boundary point should be at the *onshore connection point*.

Ideally, only the costs of connection compliant to the level of SQSS should be allowed into TNUoS tariffs, otherwise TNUoS tariffs will become too complex and less transparent when accommodating for users above or below the standard. The ultimate impact of this is lower predictability in TNUoS tariffs and a negative effect on competition. If it is found that SQSS is too difficult to follow when connecting users and operating the onshore and offshore transmission network, then perhaps the entire concept of the standard(s) (and their inclusion in charging methodologies) needs to be reassessed.

Should you have any questions regarding the comments in this response please do not hesitate to contact me.

Yours sincerely,

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