

4th November 2005

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Dear Adam,

Initial Thoughts Consultation: Introducing a New Charge for Limited Duration TEC

Thank you for the opportunity to comment on the above consultation.

Key Points:

- **British Energy believes that it is appropriate to adopt the charging principles established by STTEC for LDTEC.**
- **British Energy agrees that it is important that the primacy of TEC is not undermined. We think that front loaded charges are the best method of achieving this.**
- **The most crucial impact will be on the primacy of TEC. Predictability of transmission system development, transmission charging and to an extent security of supply is predicated on TEC which must remain the primary access product.**

It is appropriate to adopt the charging principles that were developed for STTEC for LDTEC in order to ensure that the long-term signals are not diluted. The users of short and intermediate term access may not be exposed to the appropriate marginal cost signals as the costs of providing those parts of the system infrastructure that they use have already been picked up by other users with TEC. In order to maintain the relative signals for the products it is vital that TEC is not undermined and that shorter-term users do not free ride on a system paid for by other users.

Whilst we agree with National Grid that the differences between the two products summarised in the consultation do have the effects of either protecting or undermining TEC we think that the only real method of protecting TEC is to have charges which protect TEC. Ultimately even with a riskier product with potentially lower levels of access and no option on next year a low price will always outweigh the risks.

Whilst we agree that for the entire year span of LDTEC a premium would be appropriate it does not need to be large if the up-front temporal profile of charging is adopted. The up-front profile ought to charge 90% of the annual TEC in that zone plus 10% of the charges divided by 365×49 for the first 7 weeks access. This relates to the amount of the costs on the system driven only by capacity (the 90%) and the temporal access of the 10% related to commodity. Thereafter 40% of the zonal charge divided by 365 should be charged for each

day of subsequent access. This would lead to a premium of 23% when the largest amount of access was taken. Most importantly it means that plant with an average annual load factor of greater than 37% is not incentivised to move to LDTEC from TEC. This rewards users who commit to the system for the longer period and also protects TEC and STTEC by balancing the incentives correctly between all three products. STTEC would remain attractive for shorter-term use and longer-term users (new plant and plants wanting six months or more) would be able to use LDTEC if TEC was not available.

Obviously this only works if the charges are based on the locational tariffs given by the DCLF ICRP and it would be appropriate to have zero in the negative charging zones.

The 'flat', 'peak' and 'seasonal' profiles suggested as potential temporal models would undermine TEC and efficient use of the system, as well as undermining competition in generation. This is because they would encourage users to take shorter-term products with more risk as a way of avoiding the full locational signal given to their plant.

The 'up-front' approach works with both temporally separated multiple LDTEC application and MW addition multiple LDTEC applications. This would mean that if one were to apply for 10 weeks worth of LDTEC at 10 MW for three periods in the year then for the first you would pay the large up-front payment and for the rest only the 20% daily rate. If however the third period was 15MW then the up-front payment on the additional 5MW would also be due.

The most appropriate charge base is peak capacity as 90% of network costs are driven by peak demand. The user has the ability to determine what level of access offered is acceptable in the cases of a profiled access product after they have seen the profile and can top-up with STTEC to avoid having a short rise in access rights set the charge for the LDTEC.

There should be no consideration of LDTEC purchased within a year as a user would be receiving additional access at no cost. If a user has 10MW of LDTEC to the year-end then the TEC can only be granted on top of that access thus giving 20MW to the year-end, which would need to be charged additionally. Also if the LDTEC stops before the TEC starts then the temporal charge profile for LDTEC would mean that the user is not paying for LDTEC at the same time as TEC and therefore no account can be taken.

We agree with the drivers for the application fees for LDTEC.

If you have any questions regarding these comments please do not hesitate to contact me.

Regards



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