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Dear Tom

**Further Consultation Document GB ECM-08**

**Modification proposal to the Transmission Network Use of System Charging Methodology to introduce charging arrangements associated with Offshore Transmission Networks**

I set out below the views of Scottish and Southern Energy (SSE) on the revisions to National Grid's December 2007 proposals for the charging arrangements for offshore transmission networks. Our comments here are made in addition to our response to the December 2007 proposals.

In summary, and notwithstanding our wider concerns about the Transmission Network Use of System (TNUoS) charging methodology, we are extremely concerned that the proposed charging arrangements for offshore generation users are not consistent with the charging arrangements for onshore generation users. This goes against Ofgem's direction that the current TNUoS charging methodology should be used, as far as is possible, as the basis for determining TNUoS tariffs for offshore generation users. More so, this would appear to go against National Grid's licence obligation not to discriminate between any person or class or classes of person. In addition, given that the offshore generation users are renewable technologies, this would appear to be in contravention of Article 7 of the Renewables Directive.

If implemented, the proposed charging arrangements would levy, in effect, a 'deep' connection charge on offshore generation users. The application of circuit specific expansion factors, circuit specific security factors and the substation tariff means that the revenue requirement of the offshore transmission asset owner would in most, if not all, instances be fully recovered from offshore generation users. Furthermore, National Grid proposes to pass-through those charges levied on it by

Distribution Network Owners (DNOs) directly onto offshore generation users. This 'deep' connection charge would be levied in addition to the onshore generation TNUoS tariff.

The basis for onshore and offshore generation users charges would, hence, be very different:

- Offshore generation users would be liable for the historic investment cost and actual ongoing running cost of their local infrastructure.
- Onshore generation users would be charged for local infrastructure on the basis of the incremental current cost of supplying them or, as The Statement of the Use of System Charging Methodology explains, charges "*reflect the impact that users of the transmission system at different locations would have on the Transmission Owner's costs, if they were to increase or decrease their use of the respective systems*".

We do not believe that such a different approach to the charging arrangements for onshore and offshore generation users has been or is justified.

We note National Grid's ongoing modification proposal GB ECM-11 (For the charging arrangements for local generator assets), with respect to which these proposals for offshore generators appears to require and expect a non-veto decision by the Authority. However, as we describe below, a non-veto decision on GB ECM-11 would not address the fundamental discord in the proposed charging arrangements for onshore and offshore generation users.

Given this, we do not support National Grid's proposals for the charging arrangements for offshore transmission networks. Parity is required in the charging arrangements for onshore and offshore generation users. This can be achieved through the common application of the GB ECM-08 proposals to both onshore and offshore generators, or the common application of the GB ECM-11 proposals to both onshore and offshore generators, or an alternative approach. We support an alternative approach that combines, for all generation users, a shallowish connection charging policy with a uniform commodity charge for use of the system.

### **GB ECM-11 For the charging arrangements for local generator assets**

#### *Expansion factors*

It is proposed that specific expansion factors for offshore circuits should be derived from the average annual revenue requirements of the offshore transmission asset owner. This means that offshore circuit expansion constants would reflect the historic cost of capital investment and the actual financing and overhead costs of the offshore transmission owner. In contrast, generic expansion factors for onshore circuits are derived from the current cost of capital investment in transmission infrastructure, adjusted to make the tariffs as forward looking as possible. Generic financing and overhead allowances are added to the capital cost estimate.

It is not proposed to change the derivation of expansion factors for onshore circuits under GB ECM-11; hence, fundamentally inconsistent charging arrangements are proposed for onshore and offshore generation users.

#### *Security factors*

It is proposed to revise the charging arrangements for offshore generation users to calculate circuit specific security factors by comparing the rating of the cable with the capacity of the power station(s) connected to it. This approach is intended to ensure that offshore charges reflect the investment costs of different standards of connection design, i.e. zero, partial or full redundancy connections.

However, this approach runs contrary to that proposed by National Grid in its Conclusions Report for GB ECM-11. If implemented, the GB ECM-11 modifications would introduce a security factor of 1.0 for circuits where the loss of the circuit would result in loss of access to the network. For all other circuits the security factor will remain 1.8; there would be no recognition of partial redundancy for onshore generation users.

In its Conclusions Report, National Grid recognises that a security factor that recognises partial redundancy would result in more cost-reflective charges:

*“A robust and cost reflective solution should be developed that is not only suitable for the small number of existing generators that have a degree of partial redundancy but also for the significant number of transmission connected offshore generators expected to connect in the future with such connections.”*

We agree, and believe that if such an approach is to be implemented for offshore generation users (as is proposed under GB ECM-08) then it should also be applied to onshore generators. We note from National Grid's consultations that there are currently no offshore generation users with partial redundancy and 25 existing onshore generators with partial redundancy.

#### *Substation tariffs*

The proposed revision to introduce a substation tariff for offshore generation users appears to pre-empt the Authority's decision in relation to GB ECM-11. If GB ECM-11 is implemented, both onshore and offshore generation users will be liable for a substation tariff. If GB ECM-11 is not implemented, only offshore generation users will be liable for a substation tariff. Such discordance in the charging arrangements would not be consistent with the principle that the current TNUoS charging methodology should be used, as far as is possible, as the basis for determining TNUoS tariffs for offshore generation users.

As with the specific expansion factors for offshore circuits described above, it is proposed that the substation tariff is derived from the historic cost of the substation assets. Again, this would be fundamentally different to the approach under GB ECM-11 which, if implemented, would derive substation tariffs from current cost data.

*Generation zoning*

The proposed revision to the generation zoning methodology again appears to pre-empt the Authority's decision in relation to GB ECM-11. If GB ECM-11 is not implemented, then discordance in the charging arrangements for onshore and offshore generation users would arise.

I hope these comments are helpful. If you would like to discuss any aspect of this response further then please give me a call.

Yours sincerely,

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**Regulation Analyst**