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Friday, 17 September 2004

Dear Stuart,

*The following comments are made on behalf of RWE npower plc, Innogy Cogen Ltd., Innogy Cogen Trading Ltd., npower Ltd., npower Northern Supply Ltd., npower Yorkshire Supply Ltd, npower Northern Ltd, npower Yorkshire Ltd, National Wind Power*

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

RWE npower welcomes the opportunity to comment on the issues contained within the Final Methodologies Consultation for GB transmission charging published on the 20 August 2004.

#### **In Summary**

RWE npower supports a GB use of system charging methodology with the following key features:

#### **TNUoS**

- A representative DCLF model
- Scaling of injection capacities to approximate peak merit order
- Forward looking expansion constant reflective of full incremental cost of increasing power flows
- Multiple-voltage expansion factors representative of incurred costs
- Locational Security Factor
- Zonal range of no greater than +/-£1/kW
- A change in the G/D split to 10:90

#### **BSUoS**

- Zonal Balancing Services Prices

Of the two options presented by National Grid, RWE npower believes that Scenario B would better meet the licence objective on cost-reflectivity and therefore also better facilitate competition.

RWE npower supports the development of economically efficient locational signals across both the transmission and distribution networks. In the context of the significant expansion of renewable generation, predictable and cost-reflective tariffs must be developed to provide appropriate locational signals for both directly connected and embedded generation, with symmetrical signals for demand. These will ensure that investment in infrastructure assets is efficiently incurred, and that the costs that users impose on the networks are recovered from those that cause them to be incurred. At a time when a large quantity of potential generation is deciding where to locate, it is more significant than ever to have correct locational signals.

The Draft Guidelines on Transmission Charging relating to the European Commission's Regulation on Cross-Border Trading propose a transitional regime for harmonisation of average generator use of system charges. A change in the G:D split to 10:90 would provide an enduring solution to negative demand tariffs whilst preserving cost-reflective locational signals. It would also act as a stepping stone to conformity with European legislation, minimising future step-changes in tariffs.

## **TNUoS Charging**

### **Usage of data in the DCLF model**

Discussion of the treatment of interconnectors and intermittent generation in the DCLF model has highlighted that the uniform generation scaling method employed in the current E&W TNUoS methodology does not produce a set of nodal generation values that are reflective of peak conditions. We support the application of scaling factors for all injection points, including interconnectors, approximating the peak merit order as this would produce nodal generation values that are more representative of peak conditions. The resultant tariffs would therefore more accurately reflect the investment required to transport peak flows on the system.

We welcome NGC's acceptance in the consultation document that a merit order approach to scaling of nodal generation data could better fit the principle of the model, namely an analysis of peak system conditions. However, we do not share NGC's concerns regarding transparency and the potential for volatility. Moreover, we do not understand why the use of a merit order would threaten the cost-reflectivity of tariffs. A merit order is already produced for the planning standards and published in the SYS with full transparency. Its production inevitably involves

some assumptions regarding running of plant which can be volatile. However, these reflect the reality of market movements and as they form the basis of actual system investment should lead to greater cost-reflectivity of tariffs.

We support the proposed treatment of the Moyle and French Interconnector as it is based on peak merit order. However, this further serves to highlight the inconsistency in treatment between interconnector and generation injection points. National Grid recognised that it is inappropriate to model the Moyle interconnector with a TEC of 400MW. It should be similarly recognised that it is inappropriate to model any low merit injection point with its full TEC. The approach advocated above would correct this anomaly.

### **Multi-voltage Expansion Factors**

Multi-voltage expansion factors were introduced into the E&W model from 1<sup>st</sup> April 2004 in order to reflect better the normal operation of the system. It would be a retrograde step to exclude this feature from the GB methodology purely for the purpose of eliminating negative demand charges.

We agree with NGC's assessment that transmission assets at 132kV and radial circuits are not unique to the Scottish system and should be as appropriately modelled by the multi-voltage expansion factors as in the existing E&W methodology. Indeed, the ICRP multi-voltage expansion factor methodology could be extended to all 132kV circuits in both E&W and Scotland in order to prevent discrimination between transmission and distribution 132kV connectees across GB.

### **Calculation of the Expansion Constant**

An expansion constant based on MEA rather than historic values would appear to be the appropriate approach for calculation of the marginal costs of infrastructure investment. However, the current expansion constant is artificially low as it ignores investment in transmission equipment such as transformers, quad boosters and SVCs which is driven by power transfers across the network. The cost of all transmission equipment used in power transfers should therefore be included in the expansion constant.

The DCLF Expert Group is currently considering such proposals, and it would be appropriate for any change to the expansion constant calculation to be based on industry consultation of the conclusions from this group.

## **Stability and Predictability**

We welcome National Grid's analysis of the relative stability and predictability of the two options. We agree with National Grid's conclusion that the scope for Scenario A to provide protection against instability is limited. Furthermore, we do not believe that Scenario A is any better in providing greater predictability of tariffs. For either option, both the methodology itself and the associated input data would be transparent through publication of the Charging Methodology Statements and the relevant network, generation and demand data in the SYS.

## **Zoning**

The current zoning criterion of +/-£1/kW has been in place since the start of the ICRP methodology in 1992. Its declared purpose is to make charges more stable and simplify administration. However, it creates the potential for unpredictable tariffs due to a number of permutations satisfying this criteria based on the differentials in the nodal shadow costs for both the current E&W model and the proposed GB model. A smaller range would decrease the number of permutations and associated subjectivity in determining the zones, thus increasing the predictability of tariffs. A nodal generation tariff approach would offer improved cost-reflectivity and predictability of use of system charges. Whilst there is maybe a trade-off to be struck between predictability and volatility in choosing between nodal and zonal charges, a widening of the range would be wholly counterproductive to the pursuit of the relevant objectives.

We support the development of more detailed and fully transparent zoning criteria by the DCLF Expert Group to ensure that there are not numerous zoning permutations. We also support the proposal to finalise and publish GB 2004/05 generation zones in advance of the publication of the associated tariffs. National Grid have stated that this should be achievable by the end of December each year which would reduce the uncertainty facing suppliers and associated risk premia being passed through to consumers.

## **BSUoS Charging**

RWE npower continue to believe that NGC should review as a matter of urgency the potential to develop cost-reflective locational BSUoS pricing. National Grid responded to this proposal by stating that in order to create locational signals to reflect transmission constraints,

'a methodology for allocating the cost of a balancing action, or a proportion of the cost of a balancing action, to a constraint and hence any particular location would need to be developed'.

However, such a methodology already exists! The 'NIV' tagging process is used to identify 'system' balancing actions from 'energy' balancing actions for the purpose of calculating imbalance prices under the BSC. There appears to be no logical reason why this established procedure could not be developed to calculate a locational component of BSUoS. We note National Grid's comment that change on this scale would be a major exercise and may not be feasible in BETTA timescales, and that locational BSUoS was discussed during the E&W Charging Review. However, it has not been debated in a GB context where the changes contemplated are much more substantial. Given National Grid's obligation to keep the methodologies under continual review, the issue merits more detailed consideration than it has been given in the consultation document.

Please do not hesitate to contact me should you wish to discuss any matter raised in this response.

Yours sincerely

Shona Watt

Transmission Charging Manager  
npower