Our Ref
Your Ref

Stuart Easterbrook
National Grid Company plc
NGT House (Floor C3)
Gallows Hill
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Date 21 May 2004

Dear Stuart

GB Transmission Charging: Initial Methodologies Consultation

EDF Energy welcomes the opportunity to outline its views on this initial methodologies consultation on GB Transmission Charging. We do not have any objection to our response being published on the NGC website.

In summary, EDF Energy:

- **support the proposed GB Connection Charging methodology;**
- **support the multi-voltage expansion constant approach for the GB Use of System Charging methodology;**
- **we are concerned about the impact on future England and Wales demand charges of the expansion of the transmission system associated with the development of renewable generation, particularly in Scotland;**

Our views are discussed in further detail below.

Connection Charging Methodology

EDF Energy support the proposed use of the current England and Wales shallow connection charging methodology across GB under BETTA. We agree with the proposed derivation of connection asset GAVs using the same methodology in Scotland as is currently used in England and Wales.

We agree with NGC that a consistent GB approach to Site Specific Maintenance is appropriate and that in the longer term this would be best addressed through a review of SSM charging and contestable maintenance arrangements. In the interim we support the proposed flat charge for SSM as a percentage of GAV.

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Use of System Charging Methodology

EDF Energy support the proposed use of the current England and Wales Use of System charging methodology across GB under BETTA. We agree with National Grid that the multi-voltage expansion constant methodology (Scenario B) would most accurately reflect the costs of the transmission system.

National Grid suggests in the consultation document that the less cost reflective approach (Scenario A) would better facilitate competition. We disagree with this as we believe that the reverse is in fact true. If transmission charges were less cost reflective then this would distort competition by providing inaccurate locational signals to Users that could skew their economic decision making processes. We consider that cost reflective charging is a key element in facilitating competition based on economically efficient business decisions. We do not believe that expansion constants based on 400kV (Scenario A) provide this degree of cost reflectivity as they would understate the costs of network reinforcement in certain areas. If users are exposed to artificially weaker locational signals then there is a risk that the construction of new generation will lead to inefficient development of the transmission network at significant cost to all transmission users.

We note that NGC believes that the two scenarios offer different levels of stability but have provided no evidence of this. Since both scenarios are based on the same underlying model and data inputs it seems to us that the responsiveness of the resultant tariffs would be the same except that any fluctuation would be magnified in Scenario B due to the higher average expansion costs being applied. We would like to see further analysis from NGC on the likely stability of tariffs under both Scenarios.

A further impact on tariff stability, which is also not considered by NGC, is the extent to which new generation would respond to the locational signals given by the transmission tariffs in each scenario and therefore give rise to the need for expansion of the transmission network.

In recent years a far more significant risk to the stability of the charges has been the changes in methodologies that have occurred on an annual basis. Even small changes in methodology can have a significant and not always predictable effect on tariffs. The re-drawing of generation zonal boundaries also creates a risk to generators of a step change in their transmission charges that does not reflect a change in transmission costs. We recognise the reasons for these recent changes in the charging methodologies, particularly in light of BETTA, however, we look forward to a period of stable charging methodologies.

Other issues

Notwithstanding our support for cost reflective transmission charges which we believe will facilitate a competitive wholesale market and promote the efficient use of the transmission system, we are concerned that demand in England and Wales will be faced with an increasing cost burden for the development of the transmission system associated with inefficiently located (in transmission terms) renewable generation. Also, as the UK begins to move towards EU harmonisation of transmission charging at a level of G=0 we believe that there may be a case for considering the development of separate methodologies for generation and demand charges.

We are concerned that the process and timescales for establishing GB (and particularly Scottish) TECs are at present a little vague. We would like a defined timetable to be

produced by NGC for the agreement and publication of GB TECs in order to provide greater transparency of the process.

We hope that you will find these comments useful. If you have any queries please do not hesitate to contact me on 0207 752 2526.

Yours sincerely

Rupert Judson
Transmission Infrastructure
& Development Manager
EDF Energy