



23 November 2007

Tom Ireland
Electricity Charging and Access Development
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Dear Tom,

GB-ECM09: Consultation Document

Wind Energy is pleased to submit this response to National Grid's consultation document on charging arrangements associated with Security and Quality of Supply Standards (SQSS) discounts based on customer requests. We are writing on behalf of seven group companies with wind power projects under development across Scotland having a combined capacity of some 600MW. The principal shareholder in the Wind Energy companies is AES Corp, one of the world's leading independent power producers.

Principle

In common with Ofgem and respondents to National Grid's GB-ECM 06 consultation, Wind Energy is supportive of the principle of reflecting the avoided cost of infrastructure in the charge paid by parties which opt for a less secure connection design. An appropriate, cost-reflective discount will contribute to ensuring that parties take efficient decisions about their connection to and use of the GB transmission network, reducing costs to customers.

Satisfactorily resolving this long standing issue will remove the current penalty faced by parties which opt for a less secure connection design. We note that such designs have a relatively lower environmental impact and greater probability of receiving planning approval and consequently are more likely to lead to projects connecting to the network, increasing competition and facilitating the achievement of Government Renewables Targets in the near term.

Our concerns

However, we have significant concerns about:

- The extent to which the proposal addresses the concerns expressed in the Authority's decision to veto National Grid's previous proposal;
- a lack of proportionality in National Grid's response to a relatively simple issues;
- the extent to which it is consistent with National Grid's charging methodology objectives.

We discuss each of these issues in turn below.



Addressing the Authority's Concerns

In vetoing GB ECM-06, the Authority stated that:

- The standardization of a discount will inevitably mean that some generators will not receive the full discount to which they may be eligible, should the discount be calculated specifically on the costs saved at an individual site. There is therefore an argument that a standardized discount will not promote competition to the same extent as one calculated on the actual savings at each connection.
- We are concerned that the proposal does not sufficiently reflect the capital costs saved therefore does not strike this balance and as such would not provide the intended economic signals to generators. Indeed we note Ofgem considered that NGET's estimate of the discount was significantly conservative.
- In order for competition to be facilitated, charges and any associated discounts must accurately reflect the costs that generators incur on the transmission system.

In our view, in persisting with a quasi-generic approach to calculating discounts and failing to reflect savings in substation costs, National Grid's revised proposal fails to take into account the Authority's comments. Therefore the likelihood of it being approved were it submitted to the Authority in its current form also appears low.

We are concerned by National Grid's statement (Page 6) that cost savings associated with design variation connections should be reflected as a discount to users' charges, but that this must not undermine the use of system charges as a whole or provide perverse locational signals. If both the use of system charge and the discount are cost-reflective, we are unsure how a perverse incentive can arise. A user will consider both the charge and proposed discount and assess the likelihood of access being unavailable and make an efficient decision on that basis.

We are unsure how a concern about perverse incentives has led National Grid to propose to offer no substation related discount and a generic circuit length related discount, neither of which is cost-reflective and contradict the views of the Authority.

We note that Ofgem considered the previous proposed discount to be significantly conservative. We note that this discount included elements relating to both the avoided cost of distance related and substation assets. In light of the Authority's comment, we are surprised by the absence of a substation related discount within the revised proposal.

We have concerns that, by failing to reflect the avoided cost of substation assets, the proposed discount remains inefficiently low. This is likely to mean that fewer parties than would be efficient are can be expected to opt for lower standards of connection. As a result, the GB user community will have to fund the costs of infrastructure assets which are neither efficient nor economic.



Lack of Proportionality

We consider that the level of discount received should be proportionate to the level of service provided. At present, a party which opts for a non-compliant connection is required to waive their rights to compensation in the event that they are unable to use the transmission system, while paying a charge that is priced to reflect guaranteed availability. Given that parties with compliant connections receive full compensation as a result of any fault on the transmission system that causes it to be unavailable (irrespective of whether the fault occurs on an asset which happens to be charged for on a locational basis or via a residual charge) it seems logical that a party which opts for a lower standard of connection should receive a discount which is commensurate with the total avoided cost of its decision.

We have material concerns regarding the complexity of the proposal. While we are not of the view that complexity per se is undesirable, and acknowledge that on occasion it is necessary, we do consider that the level of complexity needs to be proportionate to the complexity of the issue being addressed. In this case and particularly given the Authority's comments, we consider that the proposal fails to meet this criterion.

Compliance with charging methodology objectives and licence obligations

National Grid is required to develop proposals which better facilitate the achievement of the charging methodology objectives. It must also operate in a manner consistent with its licence obligations.

Cost reflectivity

As we discussed previously, by proposing no substation discounts and using generic methods of calculating site-specific discounts, National Grid is accepting that the proposal is not cost-reflective.

Facilitating effective competition

Given the Authority's view that cost-reflective charges are a crucial facilitator of competition, it follows that the lack of cost-reflectivity is unlikely to facilitate effective competition. We also note that if charges are cost-reflective, their cumulative impact should also be cost-reflective and are therefore unconvinced by National Grid's concerns about perverse incentives were a site specific discount provided.

In addition, by bringing forward a proposal which fails to have full regard to the Authority's previous comments, the chances of this issue being resolved in the short term appear limited. Therefore the current inequitable, and arguably discriminatory, treatment of generators who pay for a service which they don't receive will persist for an unnecessarily long period, failing to facilitate competition. Furthermore, by unduly prolonging the process, the risk that parties will opt for complaint connections, where this is neither economic nor efficient will persist, arguably failing to facilitate compliance with National Grid's licence.

Alternative approaches

Wind Energy broadly agrees with the Authority and considers that the most pragmatic, efficient, cost-reflective and non-discriminatory approach to resolving this issue would calculate a project specific discount based on actual cost savings in each case. An annuitized discount could be calculated relatively easily using the existing charging methodology assumptions about asset life and rate of return. This would allow the avoided capital cost savings and reduced rate of return on National Grid's asset base to be reflected to generators on a site specific basis in a well understood and clear manner.



An alternative solution might simply involve providing all parties which have purchased financially firm access rights with those rights, irrespective of their choice of connection design. This could be achieved by paying compensation to all parties. In this case, treatment would be non-discriminatory and National Grid and Transmission Licensees could make efficient trade-offs between expected compensation costs and the costs of new infrastructure in network planning.

We hope that these comments are useful and urge National Grid to consider them fully in developing a proposal to be submitted to the Authority. We would be happy to discuss these issues further if it would prove useful.

Yours sincerely

Michael Davies
Managing Director