

Mr Stuart Easterbrook  
Transmission Charging Manager  
National Grid Company plc  
NGT House (Floor C3)  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Name David Tolley  
Phone 01793 892650  
Fax 01793 893051  
E-Mail david.tolley@RWE.com

30<sup>th</sup> December 2003

Dear Stuart

### **GB Transmission Charging – Initial Thoughts**

I have noted below our thoughts on your initial thoughts concerning an approach to GB Transmission Charging. I have labelled the comments in accordance with the headings in the consultation document.

### **Implementation of Connection Charging Methodology**

#### ***Gross Asset Values and their revaluation***

Although the arithmetic outcome might be similar, we do not believe your description of the derivation of the GAV for a pre-vesting asset correctly reflects the theoretical basis for deriving connection charges. Since this consultation is intended to set the framework for a system of GB charges we would suggest that this should be amended.

Generally connection charges should recover the cost of the assets that have been provided and permit the TO to earn a reasonable rate of return on the capital expended. The GAV for pre-vesting assets should thus reflect the cost of the connection asset at the time it was taken into private ownership (i.e. at Vesting), and not some arbitrary re-valuation. When the rate of return is calculated the practice is to apply a real rate of return to the GAV. In order the return is “reasonable” it should be a nominal rate. It is thus necessary for the GAV to be inflated each year by RPI so that the rate of return is a nominal one. Since the RPI adjustment to the GAV is for this purpose the appropriate measure of RPI should be the annual movement in the index, and not the movement over 6 months.

RWE Innogy plc

Trigonos  
Windmill Hill Business Park  
Whitehill Way  
Swindon SN5 6PB

T +44(0)1793/87 77 77  
F +44(0)1793/89 25 25  
I www.rweinnogy.com

Registered office:  
Windmill Hill Business Park  
Whitehill Way  
Swindon SN5 6PB

Registered in England  
and Wales no. 3892782

### ***Transmission Running Costs***

The use of an average transmission cost factor derived from the average of all operating costs and the total of all transmission assets was always a dubious one since it assumes that transmission assets have the same operating costs as infrastructure assets. The expectation is that connection assets will generally have a lower than average operating cost. The movement in the connection boundary that has now been approved by Ofgem makes it even less likely that this is a robust assumption for setting charges. We would suggest that this assumption should now be reviewed in the light of the methodology being applied to GB.

### **Implementation of UoS Charging Methodology**

#### ***Zoning***

The declared objective for the creation of generation UoS zones is to give stability to the charges and make administration simpler. However, the arbitrary rule employed in defining a zone introduces instability and uncertainty in a User's charges. Since there is no administrative simplicity any longer to be gained from a zonal approach, it may now be timely to consider abandoning zones for generation charges and relying solely on a nodal system of charges. This would have the advantage of greater cost reflectivity and more certainty in the outcome of any investment or closure decision by the User.

#### ***Substation and residual***

NGC's assumption that there is no locational element to substation costs is a gross oversimplification. Certain substation equipment such as reactors, phase shifting transformer and transformers generally clearly do have a locational significance. In moving to a GB approach some elements of sub station costs should be included in the ICRP model to improve the locational signals of the tariff and its cost reflection.

#### ***Negative demand charges***

We would agree that negative demand charges cannot be catered for in an ICRP based system of charges. The appropriate degree of freedom that should be re-addressed to ensure that demand charges are always positive is the overall generation/demand split. To introduce arbitrarily determined zero charges would result in distortion to the locational signals that the methodology is intended to create. Reducing the proportion of charges that are borne by generation would also be a move in the right direction to harmonise GB transmission charges with this elsewhere in Europe.

Yours sincerely

David Tolley  
Commercial Director, Npower