

Mr. Stuart Easterbrook  
Transmission Charging Development Manager  
NGT

21<sup>st</sup> May 2004

Dear Stuart,

**GB Transmission Charging: Initial Methodologies Consultation 8<sup>th</sup> April 2004**

On behalf of EDF Trading Ltd and EDF (Generation), please find below the comments for your consideration, on the above mentioned consultation document.

On the basis that parties are being offered the choice of two options and that we have shallow connection charges, then we would prefer Option 2 on principle. This is simply that we believe that in the GB market it is appropriate to have the most cost reflective charges as possible. To move back to a single expansion constant would be a retrograde step, after only having introduced the multi-voltage approach this year and for reasons of cost reflectivity.

Adopting Option 2 would, in our view, provide the appropriate and efficient signals to the market for both operation and investment and hence will encourage appropriate levels of competition. We fully understand the impact this would have on Northern generators and in particular renewable generation, but if competition becomes the driver for the charging methodology, then it inevitably leads to a skewing of the market in order to favour one particular faction or another, depending on the situation at the time. This is not efficient and not in keeping with upholding market principles and particularly reflective of marginal transmission costs. In our view, this approach has led to some of the difficulties currently faced in the market, both in terms of transmission pricing and the BSC, not least of which is that demand in the South has to bear the costs of generation in the North.

The market needs to be driven by efficient cost signals (locational prices), and by so doing the appropriate levels of competition will follow. Any favouring or support for one group or another, unless it is for transmission investment or operation reasons, should be outside of the transmission pricing methodology.

We also note your comments about the stability of each option, but we do not understand why there should be a difference between the two. Moreover, we have been subjected to very major TNUoS price swings in the Estuary zone in recent years; the current model is not that stable a model anyway (we appreciate of course the generation changes in that particular zone).

On a more general point, we still believe that it is inappropriate for there to be any Transmission related charges for the Interconnectors, i.e TNUoS charges, particularly the Demand charge. Demand on the interconnector is not demand in the sense that it is consumer demand and even when acting as a generator, its characteristics are different because of the inherent dependency on the circuitry and the system behind it. Any trade on the Interconnectors is a response by the generation markets (and in an interconnected system within the wider context of the IEM) in relatively short timescales to the prevailing market prices. Unlike other areas of the market, it is totally 'elastic'. If short-term or spot prices are greater in one market when compared with those in the neighbouring market, then the energy will naturally flow towards the higher priced market. At present though, the TNUoS charges represent a barrier to trade for Interconnector Users, as does BSUoS, and they in effect reduce the value of the Interconnector itself. There is also the question of charging in both directions and the inclusion of the security and residual elements in both charges as well.

Moreover, we believe that the TNUoS and BSUoS charges as applied to the Interconnectors and hence to the Interconnector Users, are 'transaction based' charges as defined in the Cross Border Regulation and new Energy Directive 2003/54 in effect as of 1<sup>st</sup> July 2004 and, as such, should not be applied as they directly contravene those Regulations. The only fee that should be applied to the Interconnector Users should be the auction fee (Congestion Management – but without applying a "Reserve Price" which also is not permitted by the Regulations), thus allowing maximum opportunity for interconnector transfers and the harmonisation of market prices. We respectfully ask you to consider once again the removal of the charges to the interconnectors and to allow any signals to trade in one direction or another to be left to the energy market, even if that means buying some of the capacity back to relieve a short-term constraint.

On more specific points within the consultation document, we note that you have chosen not to use a scaling factor for the Interconnectors (IFA and Moyle) and that in Option 1 the Estuary zone has been combined with the East Anglia zone; we believe that neither is appropriate. On the first point, we see no reason to leave the interconnectors at a maximum transfer and we believe that it would be better to estimate a transfer level, but for this to be capped by the maximum level multiplied by the general scaling factor used elsewhere or even a specific scaling factor based on recent historic values. On the second point, we do question the boundary of this zone as it seems to bear no relation to any known constraint and the nodes are not geographically or electrically proximate, as defined elsewhere.

We hope these comments prove helpful and look forward to seeing the next draft in August.

Yours sincerely  
Dr. Nick F Frydas  
Transmission Issues Manager  
EDF Trading Ltd.