

21st May, 2004

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Dear Stuart,

GB Transmission Charging: Initial Methodologies Consultation

Thank you for the opportunity to comment on the above consultation.

The development of this consultation paper and the tariffs within it appear in some respects to be the logical next step from the previous GB Charging Consultation: Initial Thoughts. There are, however, some significant changes from the 'Initial Thoughts' consultation, not least an increase of £150 million in the total revenue to be recovered, which should be explained. NGT have also provided two very different Scenarios within this consultation, neither of which has been adequately justified.

This response takes each of the points raised in the consultation in turn.

Key Points

- **British Energy does not support administered transmission charges that vary excessively by location for incumbents. Whilst we recognise that the DCLF model may approximately reflect actual power flows in the system, the case for marginal cost locational pricing in a system with large historically sunk costs will never be overwhelming.**
- **We consider that the application of the GB Model as proposed still contains flaws. We therefore have little confidence that it provides users with a reasonable estimate of illustrative charges under BETTA. The continuing uncertainty over the final tariffs creates additional business risk, especially for the supply industry. It is important that this is resolved as quickly as possible.**
- **There are some significant changes from the 'Initial Thoughts' consultation, not least an increase of £150 million in the total revenue to be recovered,**

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which should be explained. Does it account for the absorption of the Scotland - England Interconnector assets? This is contributing to uncertainty in industry.

- **British Energy is of the opinion that charges should be stable, predictable and proportionate as far as is practicable. There should be no special treatment for any particular group as that would distort competition.**
- **BE does not support the idea of a Locational Security Factor. System security is of benefit to all and costs associated with its' provision should fall equally on all users. BE does not support the extension of the Locational Security Factor on a GB basis.**
- **BE supports the concept of a constraint of the range of charges levied against users. This would enable proportionality to be applied on top of the existing methodology, which will provide stability and predictability. We consider this approach to be preferable to phasing.**
- **British Energy supports the concept that in order to prevent negative demand charges appearing in Scotland it would be reasonable to redefine the G/D split.**

Basis for GB Transmission Charging

Transmission charges should be stable, predictable and proportionate as far as is practicable. There should be no special treatment for renewables that distort competition. Options such as the capping of GB tariffs are unlikely to work as they would disproportionately distort charging and thus damage competition. Greater transparency of information used to derive the tariffs is required.

British Energy does not support administered transmission charges that vary excessively by location for incumbents. Whilst we recognise that the DCLF model may approximately reflect actual power flows in the system, the case for marginal cost locational pricing in a system with large historically sunk costs will never be overwhelming.

BE has stated previously that it does not support the idea of a Locational Security Factor. System security is of benefit to all and costs associated with its provision should fall on all users. BE does not support the extension of the Locational Security Factor on a GB basis.

Address “disproportionate” charges through range constraints

A constrained solution would provide a more proportionate, stable and predictable GB tariff.

BE supports the concept of a constraint on the range of charges levied against users. This would enable proportionality to be applied on top of the existing methodology, which provides the elements of stability with locational signals. The

number of 5.25 quoted in the consultation is not arbitrary but reflects the current range of tariffs in England and Wales. It would also provide some predictability as users would be able to better understand what future tariffs may look like. This approach would therefore satisfy the licence objectives.

Generation/Demand Split

Negative demand charges should be avoided as they create perverse incentives.

British Energy supports the concept that in order to prevent negative demand charges appearing in Scotland then it would be reasonable to redefine the G/D split such that there is a comfortable margin in the zones that have the lowest demand charges.

Phasing of new GB Transmission Charging methodology

British Energy agrees that phasing is a less preferable approach to solving the problem of excessive tariffs than constraining the range.

Obligation to support UK Governmental Energy Policy / Consideration of Environmental Impacts

Transmission charging arrangements should not be distorted in order to satisfy government policy. There are already established arrangements for providing support to renewables and if the government believes further support is necessary these existing arrangements should be used. Tinkering with transmission charging will damage competition.

GB Connection Charging Methodology

British Energy is aware of how the Connection Charging Methodology is applied in England and Wales but as the details are not yet finalised for its application in Scotland and we would wish to reserve the right to comment when the information becomes available.

GB Use of System Charging Methodology

Usage of SYS data in the DCLF Transport Model

British Energy agree that cascade hydro ought to be scaled prior the initial step in the model due to its peak availability pattern. It is appropriate to use the GB SYS data in the model but the timescales involved for the initial tariff-modelling mean this will not occur which is lacking in transparency. Perhaps a separate publication for this year of the input data only, rather than a full SYS would be appropriate.

Multi-voltage Expansion Factors

National Grid have always maintained that cost-reflectivity facilitates competition as well as stability. The recent charging review in England and Wales moved towards the multi-voltage approach due to the increased cost-reflectivity that NGT claimed it

gave. The development of a GB model now suggests a move away from this position. This inconsistency needs explanation.

National Grid's approach in Scenario B where a percentage of circuits, rather than specific individual circuits are modelled as moving to 400kV is supported as it should provide stability in charging. This is because it ought to mitigate against any prospective difficulty arising from large changes in particular zones if it is used in a non-locational manner.

Circuits with Spare Capacity

British Energy agrees that all circuits on a GB basis should be modelled without spare capacity.

Generation Charging Base

British Energy agrees with the proposal that all directly connected generation should face relevant charges and that all embedded generation capable of exporting more than 100MW should also be liable for generation charges.

Generation Zoning

British Energy notes that in the consultation document National Grid State that *"If the 132kV expansion factors are based on incremental capacity being provided at 275kV or above, then the £2/kW spread may be appropriate and no review of the zoning criteria would be necessary."*

British Energy agrees that the current zoning criteria are appropriate for the setting of zonal tariffs for the scenarios considered in this consultation. This may not be the case, however, if other factors of the model are subsequently altered in such a way that requires a change to the zoning criteria.

GB Security Factor

BE has stated previously that it does not support the idea of a Locational Security Factor. System security is of benefit to all and costs associated with its' provision should fall equally on all users. BE does not support the extension of the Locational Security Factor on a GB basis.

Renewables in the Highlands and Islands

Renewables in the far north of Scotland may be exempted from the full TNUoS as the DTI have stated that they may pay only a proportion and the remainder will be recovered from the GB demand users. With the level of discount or the tariff cap unknown, together with the considerable uncertainty regarding the level of qualifying generation, there is growing uncertainty within the portion of the industry engaged in supply. This uncertainty hinders competition and this subsidy in the form of a commodity charge will affect stability. Any assistance given to a particular sector to meet wider government policy objectives should be given outwith the charging methodologies.

Hydro Benefit

In what form this historical assistance for Scottish consumers will continue needs to be confirmed with alacrity. With the level of the hydro benefit or the tariff resulting from it still undecided there is growing uncertainty within the portion of the industry engaged in supply. This uncertainty hinders competition and stability. It should also be noted that there would be a significant impact on large energy users from this additional tariff.

Negative demand charges

National Grid presented two options for avoiding negative demand charges. Firstly revising the overall split of generation and demand charges in the TNUoS model (currently set at 27/73 in E&W). Or allowing the TNUoS tariffs to be calculated normally and then overriding the values to the de-minimus level in the relevant zones.

British Energy think that the correct approach will be to reapportion the G/D split in such a way that a comfortable margin of positive charges will exist against the expected new generation in Scotland from the increase in renewable connections.

Assumptions used in the GB DCLF transport model & Tariff Setting

There are some significant changes from the 'Initial Thoughts' consultation, not least an increase of £150 million in the total revenue to be recovered, which has not been explained. This is contributing to uncertainty in industry and it would be helpful if further guidance could be given in a more timely fashion as January 2005 does not allow sufficient time for the wider industry to react to these changes and the additional business risk that they cause.

Uncertainty over the future GB tariffs represents an unhedgeable risk to supply businesses. National Grid must publish accurate tariff information at least six months ahead of go-live otherwise supply competition will be damaged.

There are also good arguments in favour of a further move in the G/D split towards D, as this would be in line with best practice in most other European States.

If you have any questions regarding this response please do not hesitate to contact me.

Yours sincerely,



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