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Re: GB Transmission Charging – Final Methodologies Consultation

Dear Richard,

We welcome the opportunity to respond to the recent proposals on GB Transmission Charging. We recognise that this process has been underway for a number of months and has involved considerable input from NGC and industry participants. We further recognise that NGC have addressed a number of issues raised in responses to the previous consultation, particularly with regard to the cost-reflectivity versus competition argument. However, we do not agree that the conclusions reached by NGC in this regard accurately reflect the likely impact of greater cost reflectivity, as proposed by Scenario B, on the potential for competition, in the form of new entrant generation. As an integrated renewable energy company with a number of renewable energy projects at various stages of the development process throughout GB, we are extremely concerned about the implications of the proposed methodology on the feasibility of new renewable generation in Scotland.

As outlined in our response to the previous NGC consultation on this issue, Airtricity supports Scenario A for the following reasons:

- NGC must consider the compatibility of the proposed GB Transmission Charging methodology with the underlying objectives of BETTA to promote the benefits of participation in a wider British market. The Scenario A methodology, which creates a more stable set of charges is more likely to achieve this than the alternative solution of extending the existing England&Wales methodology on a GB-wide basis
- Generation projects will, or will not, be viable according to a combination of factors, including the cost of transmission, resource availability and a number of other environmental factors as determined and examined through the planning process. While we do not disagree with the aims of cost-reflective charging, the ability of certain types of generation to respond to such signals is limited. The charging methodology should not be structured in such a way such that locational cost reflectivity will negate all other sensible signals for generation. We consider that the methodology proposed under Scenario A represents a more balanced approach.

- The wider range of charges and different network composition in the Scottish system suggests that the relative lack of charging instability in the England & Wales system, as referred to in the April consultation document, will not necessarily hold in a GB-wide context.
- NGC refers to the considerable uncertainty surrounding the development of networks. We propose that Scenario B will create much riskier market environments in certain locations and the greater stability offered by Scenario A will go some way towards minimising what is essentially an unhedgeable risk for new entrants.

In response to some of the points in the recent consultation, we submit the following comments:

1. Finalisation of the Charging Methodologies is unclear

NGC has indicated that its preferred option in this case is the methodology under Scenario B. However, the consultation paper also states that NGC place intend to place an alternative methodology (Scenario A) before Ofgem also. I appreciate that this issue was raised at the recent TCMF meeting and a response from the Regulator is required. In the context of the sign-off procedure, is it therefore anticipated that a Regulatory Impact Assessment of one option, or both options will be undertaken by Ofgem? In the event that two options are presented to the Authority, is it the case that an RIA comparing both options, rather than evaluating one option, will ensue? In light of the conflicting views as to the requirements of the relevant licence objectives, and the subsequent obligations on NGC as licence-holder, this may be a recommended course of action.

2. Expected impact on Scottish Generation

The assertion that Scottish Generation is broadly neutral post-BETTA and pre-BETTA , thereby pointing to a lack of evidence that Scenario B would not facilitate competition is misleading. In terms of new entrant generation, with particular focus on smaller generators, the transmission charges under Scenario B represent a new and significant cost and carry significant implications for the financing and development of new plant. Many of these plant will not realise the offsetting gains presented by the reduction in interconnector charges for example.

3. Licence objectives

NGC state that they will afford the objectives of cost reflectivity and facilitating competition equal priority. As outlined above, we contend that the greater emphasis on cost reflectivity in Scenario B will skew investment decisions and actually jeopardise the development of new Scottish capacity. While a trade-off is inevitable, it is our opinion that Scenario A represents a more balanced approach to pursuing cost-reflectivity **and** promoting competition and therefore does indeed prioritise these competing objectives. While we note that the stability under Scenario A is limited, it nonetheless presents a more bankable option for smaller participants. A related issue is the zoning criteria: a widening of the +/- £1/kW zoning range would go some way towards smoothing the impact of locational charging, whilst at the same time preserving a significant degree of cost-reflectivity.

4. Further analysis

Airtricity considers that the transmission charging solution carries considerable implications for the renewables industry. We agree with the previous proposals that the use of a single expansion factor, a non-locational security factor and a wider tolerance in zonal criteria are more suitable features of a GB-wide transmission charging methodology. The adoption of these mechanisms will create a more stable

charging mechanism for generators, and as such will facilitate the ongoing development of new generation capacity. We contend that this is fully consistent with the objectives of BETTA and we continue to support Scenario A as the preferred option of the two methodologies presented at this point in time.

Please contact me should you require clarification on any of the points herein.

Yours sincerely,

Audrey Fogarty
Trading Development Manager