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Dear Craig,

Pre-consultation, manifest data errors in the calculation of TNUoS tariffs

EDF Energy is pleased to have the opportunity to comment on the possible modification to the Use of System charging methodology for manifest data errors.

We believe that there is need for an amendment to the current TNUoS charging methodology, so that there is a mechanism by which TNUoS charges can be reconciled in the event of an error by National Grid. That such an error has already occurred, albeit after a major market development proves that there is inherent "error" in setting TNUoS charges.

National Grid's pre-consultation document has identified some options for the reconciliation of TNUoS errors, which we believe are not ideal. The initial options propose that reconciliation is based on:

1. A high degree of error;
2. Eligible period for reconciliation that is time limited to only one year;
3. Reconciliations made to affected Users retrospectively (after the party has had to pay the incorrect TNUoS charges).

These initial options place all the costs and obligations on the User rather than National Grid, which we believe is contrary to objective (b), as it will not result in charges that reflect the costs incurred by the transmission licensees.

Overall, we are not satisfied that the application of a large absolute TNUoS tariff value is the ideal basis for assessing materiality.

We consider that either a percentage of the TNUoS charge or a smaller absolute tariff value is more appropriate, but only where a *de minimis* threshold is met, such as a monetary value of +/-£100,000 of annual effect (either an over- or an under-charge) on any one User's TNUoS bill.

The basis of these views and some suggestions is explained below:

Definition of a manifest error

We agree with National Grid's interpretation of what represents a manifest error, in that it can be based on errors resulting from its own data such as TEC register, User demand forecasts, transmission circuit length/types and the subsequent input of this data into the TNUoS methodology.

We note that it is the responsibility of National Grid, not the user, to ensure that errors with this data will not occur.

Materiality

National Grid provides four considerations (in the pre-consultation) for the materiality of errors. It provides an example whereby a material error of £10,000 would provide too small an error for TNUoS charges for a large generator and then seeks to justify a +/- £1.00/kW error in the absolute value of a User's TNUoS tariff.

We believe that the CUSC material effect value of £10,000 is too small an error to apply to a generator, but that this does not mean that using the "absolute value of a User's annual TNUoS charge" is wholly inappropriate. The worked example states that £10,000 would provide an error in length of measurement of 0.2665km for a 100MW generator TEC, a distance of which seems impractical. Possibly a larger uniform "km" error could be applied to Users, so that the error remains uniform, yet the monetary value increases with Users' TEC. This option does have problems, principally on the basis of errors in line voltage classification, or compound errors that are both distance and line classification related.

We do not agree that the absolute value of +/- £1.00/kW is suitable to consider a material error. For a 2GW plant this error can represent £2m, which is far too high a threshold.

We have completed some analysis on how either an absolute value or a percentage charge could be applied, with a minimum floor value.

The chart, (on the next page) has on its x axis a scale representing the TNUoS tariffs from each of the 21 zones which is applied to TEC values decreasing from 2000 to 50 and then increasing from 50 to 2000. This results in 42 data points, so the extremities of the scale represent a TEC of 2000 applied in the generation zones of Peterhead and Peninsula.

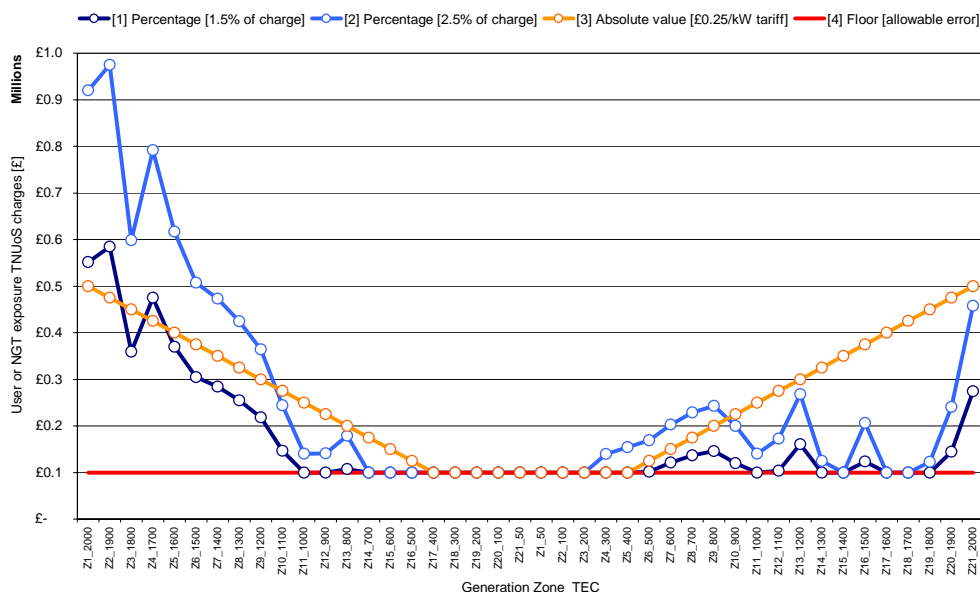
Series [1] and [2] represent percentage values of a User's annual TNUoS charges, [3] represents an absolute value of £0.25/kW and [4] is the minimum value, set at £100,000.

It provides an indication of the impact that a percentage of the annual TNUoS charge or a £/kW absolute value would bring to a User or National Grid. As the percentage is reduced, the greater proportion of instances the minimum value is invoked, as is the case with the 1.5% of annual charge [1]. However, from [2], which is a percentage value of 2.5%, we consider that there are some generation zones whereby the User may be exposed to a significant monetary value, even for a small error. Conversely National Grid is exposed to significant sums if an error is made on a large plant in the South, especially with series [3].



We believe that series [1] and [3] represent options that are fairer to both National Grid and Users than the pre-consultation's examples of a £10,000 absolute annual charge value and the £1.00/kW absolute tariff value.

Chart: Materiality effect of using an absolute tariff value or percentage of annual charge



We agree with National Grid that the manifest error should be considered on the same grounds regardless of whether the error impacts the TNUoS tariff of a User positively or negatively.

Period eligible for reconciliation

We do not agree with National Grid that the DCLF and GB SYS data results in the likelihood of a user identifying a manifest error in TNUoS charges, especially in the year that it arises. It is unlikely that a User will ever notice any error that is not significant.

We consider that any reconciliation should not be restricted to the year in which the error occurs, but an extended period, such as the duration of the price control. The end of the price control can be considered an appropriate time for National Grid to audit its charges and assess whether it has over or under charged Users: we believe the onus should be placed on National Grid, not the Users, to check this and if necessary use the next TPCR to recover any additional costs.

We do not believe that revenue recovery implications, that are the consideration of National Grid and the Authority, should prevent Users from receiving (or making) a reconciliation payment outside the budgetary year that the error occurred.

Mechanics of reconciliation

National Grid has provided three options, the first it states cannot be implemented and two that it believes suitable for reconciliation, which we believe are not ideal. The two options proposed by National Grid assume that the User will continue to pay the erroneous TNUoS charge until the end of the year, where it will be reimbursed. It is evident that these options will result in the Users being exposed to the error for the full year, which we consider unfair. However, a suspension of payments is also not appropriate as this will expose all other Users to another User not paying their charges.

We also believe that the first option, whereby erroneous TNUoS tariffs are reconciled within-year, could be possible as the Authority does have the power to instruct/permit National Grid to change TNUoS tariffs at less than the usually-required 150 days' notice.

Therefore, the only suitable solution is for TNUoS errors to be reconciled immediately with a net debit/credit to the user from National Grid and the correct tariff levied from that point forward.

We hope that you will find these comments helpful.

If you have any queries please do not hesitate to contact me.

Yours sincerely,

David Scott
Analyst, Energy Market Strategy