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30th August 2006

Dear Craig,

Consultation: Manifest data errors in the calculation of TNUoS tariffs.

EDF Energy is pleased to have the opportunity to comment on the 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 possibility for errors in setting TNUoS charges.

National Grid's consultation document has identified some options for the reconciliation of TNUoS errors, which we believe are superior to the options in the pre-consultation, but are not ideal. The refined proposal states that reconciliation would be based on:

1. A degree of error that represents £0.50/kW or a de minimis level of £250,000 (reduced from the original £1/kW suggested in the pre-consultation);
2. Eligible period for reconciliation that is time limited to only one year;
3. Reconciliation made to affected Users retrospectively (after the User has had to pay the incorrect TNUoS charges for a full year).

The proposal places 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.

In summary our view is that we:

- agree with National Grid's definition of a manifest error;
- propose a materiality value of £0.25/kW of the TNUoS tariff with a de minimis level of +/-£100,000 of annual over- or under-charge on any one User's TNUoS annual charges;
- propose 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;
- accept that it is possible for Users to accept reconciliation post-year rather than mid-year and that this should be reasonably practicable.

The basis of this view 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

We welcome both National Grid's proposal of a de minimis level and its proposed reduction of the materiality threshold for an error to £0.50/kW, (from +/-£1/kW in the pre-consultation). However we consider that smaller absolute tariff and threshold levels would be more appropriate. As in the pre-consultation, we propose £0.25/kW with a de minimis level of +/-£100,000 of annual over- or an under-charge on any one User's TNUoS bill.

We do not agree that the absolute value of +/- £0.50/kW is suitable to consider a material error. For a 2GW plant this error can represent up to £1m, 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.

Chart1, (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.

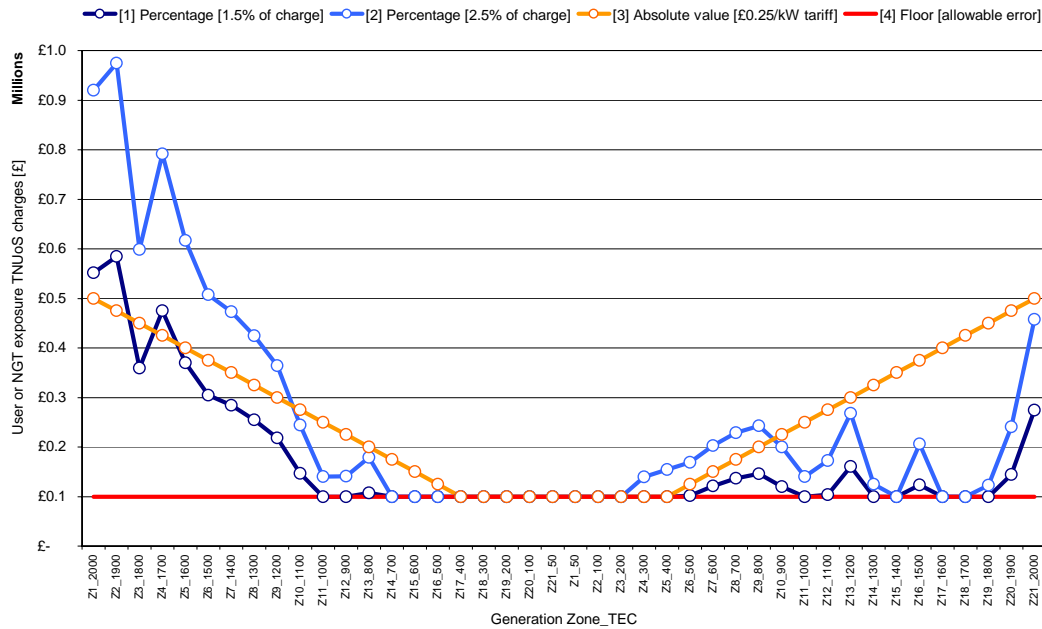
Series [1] and [2] represent percentage values of a User's annual TNUoS charges, [3] represents an absolute value of £0.25/kW and [4] is the minimum value, set at £100,000. It provides an indication of the impact that a percentage of the annual TNUoS charge or a £/kW absolute value would bring to a User or National Grid. As the percentage is reduced, a greater proportion of instances of the minimum value are 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 where the User may be exposed to a significant monetary value, even for a small error. Although we have proposed an absolute value we believe a 1.5% charge would be just as suitable. We do not discount the percentage of TNUoS charge, but believe the absolute value to be simpler to apply.

Chart2 represents National Grid's proposal of £0.50/kW with a de minimis level of £250,000, which are series [3] and [4] respectively.

We believe that Chart 1, series [3] and [4] of £0.25/kW with a de minimis value of £100,000 represents a solution that is fairer to both National Grid and Users.

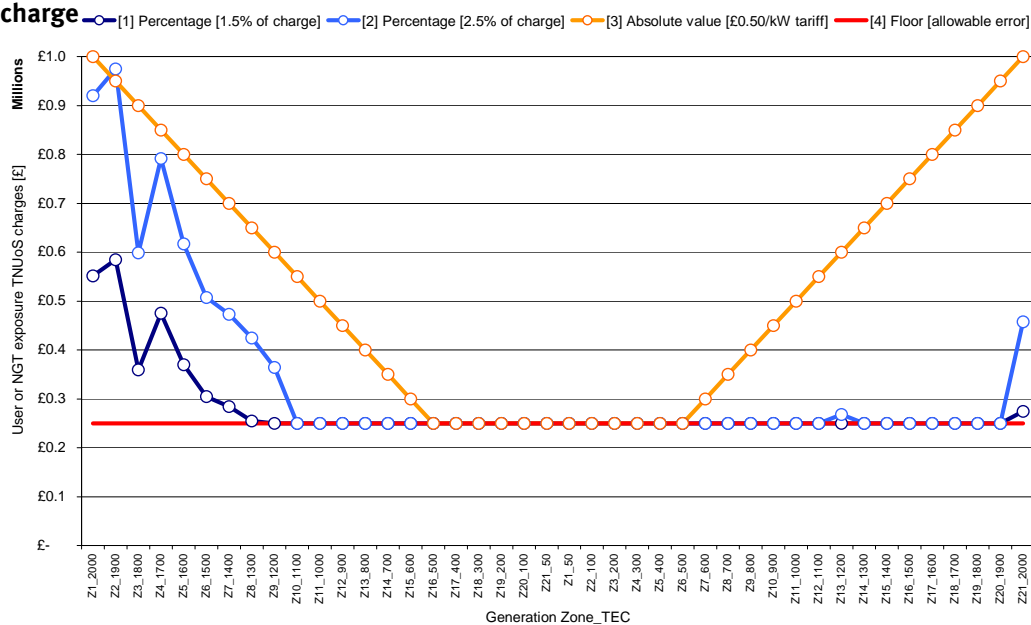
We agree with National Grid that the manifest error should be considered on the same grounds regardless of whether the error impacts the TNUoS tariff of a User positively or negatively.

Chart1: Materiality [EDF Energy*] using an absolute tariff value or percentage of annual charge



*Where series [3] and [4] represent EDF Energy’s suggested values of +/-£0.25/kW and £100,000

Chart2: Materiality [National Grid] using an absolute tariff value or percentage of annual charge**



**Where series [3] and [4] represent National Grid’s suggested values of +/-£0.50/kW and £250,000.

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. National Grid has, in its consultation, stated that it is not possible for reconciliation to occur in subsequent years, and yet is presently requesting that £25.8m be retrospectively recovered from gas shippers after an error in metering volumes transferred from the NTS to a LDZ.

Under condition 5, National Grid has been requested to consult on long term tariff publication. Also TNUoS zones and charges are to be developed under the auspice of being “predictable and stable”. In this environment, it is not unfair for Users and National Grid to be protected from errors in charging during the period of the price control, assuming that charges are to be predicable and stable.

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 proposed reconciliation whereby 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 this option will result in the User 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.

Our preference in the pre-consultation was for any erroneous TNUoS tariffs to be reconciled within-year, which we believed 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.

After consideration however, we accept that it is possible for Users to accept reconciliation post-year (rather than mid-year) and that this should be reasonably practicable.

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