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06 February 2004

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Dear Richard,

**GB Transmission Charging: Initial Thoughts
16 December 2003**

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division, which includes ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

ScottishPower UK Division opposes the extension of the England and Wales transmission charging method to GB as outlined in the consultation document for the following reasons.

- It would have a discriminatory effect on generation from renewable sources.
- The investment cost related pricing (ICRP), at the heart of the charging method, reflects notional future costs that may never be incurred, rather than the actual costs of providing transmission service.
- When applied to GB it produces extreme charging rates in peripheral zones. This imposes an individual and excessive burden on transmission customers in those zones.
- Charges in the peripheral zones are highly sensitive to subjective assumptions used in the model and to individual decisions of market participants.
- It is therefore entirely unsuitable as a basis for locational signals to guide generators' long term investment decisions.
- It is demonstrably not cost-reflective nor does it ensure that the actual transmission costs are recovered from users of the GB transmission network in a fair and proportionate way.

The fact that the charging method is not cost-reflective can easily be illustrated by considering the indicative generation charges given in the appendix to the consultation. This shows indicative

charges for all zones in England and Wales for 2004/5 together with the corresponding charges that would apply in 2005/6 if the charging method were extended to GB. The indicative generation charges for every zone in England and Wales are less in 2005/6 than in 2004/5. As a consequence the revenue that would be collected from England and Wales generators in 2005/6 would be several tens of millions less than would be collected in 2004/5 from broadly the same customer base. Clearly if the charges dictated by this charging method were cost-reflective for England and Wales generators in 2004/5, it follows that they could not possibly be cost-reflective in 2005/6.

This does not imply that there is anything wrong with GB-wide transmission arrangements in which the total revenue required to fund the GB transmission system is recovered via a common charging regime across all GB transmission customers. It simply illustrates that the charging method currently used in England and Wales does not produce cost-reflective charges. Indeed it can be argued that any charging method that results in negative charges cannot be cost reflective or proportionate. Wherever generation or demand is connected to the transmission system it makes use of assets which have a real and positive cost to build and maintain. Transmission customers who receive payments in the form of negative charges contribute nothing towards the cost of the transmission infrastructure that they use. Moreover the total revenue collected from customers in positive-charge zones must exceed the actual revenue required to operate, maintain and develop the entire transmission system. This is because the revenue collected from those customers must also provide the funds that are paid to customers in negative-charge zones.

We have provided more detailed comment on specific issues raised in the consultation in the attached paper. These comments reflect ScottishPower UK Division's current thinking in relation to the matters under consultation. These comments are submitted without prejudice to our ability to further review and reach additional and/or alternative conclusions as to the impact these matters may have on ScottishPower UK Division and the industry generally, along with any legal rights which may arise in relation to that impact. Should you have any questions on the points raised in this response, please feel free to contact us.

Yours sincerely,

Alex Brennan

Commercial and Regulation Director
ScottishPower Energy Management Limited