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Dear Alex

MODIFICATION PROPOSAL UoSCM-M-11, YEAR ROUND TNUoS CHARGES

ScottishPower welcomes the opportunity to provide comment on NGC's Modification Proposal UoSCM-M-11 for the introduction of year round TNUoS charges. This response is submitted on behalf of ScottishPower UK Division which includes the UK energy businesses of ScottishPower, namely ScottishPower Generation Ltd, ScottishPower Energy Management Ltd and ScottishPower Energy Retail Ltd. We have, as you will be aware, been following the progress of the charging review with interest and have submitted our views on several occasions. For completeness, I will re-state some of our previous comments in this response.

General comments

ScottishPower continues to be concerned that such a fundamental review of charging methodologies has been undertaken in England and Wales such a short time ahead of the introduction of BETTA. Our concerns are twofold; either that the work will be set aside and wasted when the charging methodologies for BETTA are established or, alternatively, that inappropriate England and Wales methodologies will be extended to GB in order to avoid repeating the review process. The recent consultation paper on transmission charging under BETTA makes clear that NGC, as GBSO designate, are soon to be given the responsibility of developing the GB charging methodologies. In the light of this development in NGC's transmission business we believe that grounds now exist for the current England and Wales review to be abandoned, the charging modification proposals to be withdrawn, and efforts to be concentrated on developing appropriate charging methodologies for GB.

However, should you decide to proceed with the modifications, we are submitting comments which should be read entirely in the context of England and Wales charging. Given our previously stated opposition to zonal transmission charging, both in England and Wales and for BETTA, these comments should not be taken to imply any acceptance of the underlying methodology.

Process issues

ScottishPower still has major concerns about the process which is being followed in respect of the three charging modification proposals which have been put forward. We do not believe that the modifications have been given sufficient consideration by NGC, either individually or in

combination, such that the proposals contain elements which have not been discussed within the review. The overall effects on users have not been fully explored, nor has sufficient information been made available to users to make their own assessment of the impact of the changes. No impact assessment has been offered in support of the changes. The impression given is one of excessive haste to meet a spurious deadline of implementation in 2004 when some of the changes are clearly so fundamental that they would be better implemented at the time of the price control. This is not conducive to competition.

UoSCM-M-11

ScottishPower welcomes the proposal to introduce year-round non-locational commodity charges as the first step away from the currently rigid, yet unwritten, concept of TNUoS charges as an annual product based on peak capacity. However, we believe that the proposed capacity-commodity structure raises different issues for demand and generation charges. We welcome the introduction of commodity charges on generation but we are unsure whether commodity charges on demand will provide sufficient benefits to outweigh the increased complexity and cost of the administrative and settlement arrangements. We believe that NGC should offer more evidence to justify the application of commodity charges to demand.

We believe that the commodity element for the generation charges should be applied over all settlement periods, and see no robust justification for restricting it to the proposed window of 7am-7pm, given that it relates to non-peak costs. We also note that while the target 10% of TNUoS revenue is based on a proportional share of asset investment costs, the TNUoS revenue also includes year-round operational costs. The proportion of revenue which should be recovered through the commodity charge is therefore greater than 10% and we would suggest that NGC reconsider this figure.

Yours sincerely

Mike Harrison

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