ENERGY BRANCH

Our Ref
Your Ref

Alex Thomason
National Grid Transco plc
National Grid Transco House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA

Date 10 October 2003

Dear Alex,

UoSCM-M-10 – Proposal to amend the methodology for calculation of locational TNUoS tariffs

EDF Energy welcomes the opportunity to comment on National Grid's proposal UoSCM-M-10 to amend the methodology for calculation of locational TNUoS tariffs.

We have provided a summary of our views below followed by detailed comments.

Summary

- ***EDF Energy have very serious concerns about the potentially significant impact of the proposed changes on generation zones and overall generation charges.***
- ***We believe that the current locational differentials provide an appropriate level of cost reflectivity and investment signals and we support this level of charging being maintained.***
- ***We believe that charges should be stable, predictable, cost reflective and transparent, helping to promote competition through lower risks, fair allocation of costs and long term stability. Transmission charges for 2003/04 and these latest indicative charges have exhibited an unacceptable level of instability.***

Detailed Comments

EDF Energy sees the main requirements of National Grid's transport model as being transparency, stability, predictability and cost reflectivity. We believe that the current locational tariffs provide an appropriate reflection of the differential costs of generation and demand at different parts of the network and that this locational differential is necessary in order to provide signals to new and existing users of the transmission

40 Grosvenor Place
Victoria
London
SW1X 7EN

EDF Energy plc
Registered in England and Wales
Registered No. 2366852
Registered Office:
40 Grosvenor Place Victoria
London SW1X 7EN

www.edfenergy.com

system on the relative costs of additional generation and demand at different points on the network.

However, the indicative tariffs for the proposed change have given us some cause for concern. Subsequent iterations of the indicative tariffs published by National Grid for this proposed modification have shown significant volatility in Transmission charges as a result of small changes in the zone boundaries and large differences in the tariffs of adjacent zones. Such volatility in the indicative tariffs raises serious concerns over the cost reflectivity and long term stability of transmission charges under the proposed charging methodology.

We believe that these current locational differentials provide an appropriate level of cost reflectivity and investment signals and we support this level of differential being maintained.

DCLF Model

EDF Energy support the use of a DCLF model in theory. We believe that it represents a more realistic representation of power flows on the transmission system whilst retaining sufficient simplicity to facilitate ease of use by transmission users. However, due to the volatility seen in National Grid's indicative tariffs, we are not convinced that the implementation of this model will reduce the perceived risk in generation investment and this may have a significant impact on system security.

Forward Looking Expansion Constant

EDF Energy support the proposal that a forward looking expansion constant be based on National Grid's commercial information on current and forecast cost of investment for transmission infrastructure and believe that this will give improved cost reflectivity. We support the removal of the non-locational element of substation costs from the expansion constant calculation and it then being applied through the residual component of TNUoS charge, as this is more cost reflective and helps to make the charges more stable.

Locational Security Factor

EDF Energy supports the adoption of a security factor being applied as a multiple of the expansion constant. The main aim is to produce a model that is not over complex, is relatively easy to use and provides better cost reflectivity. Since an unsecured DCLF model is being proposed, the most logical way forward that meets the objectives is to apply a security factor to it. EDF Energy believes that the costs for security of the system should, as far as is practically possible, be recovered on a locational basis, and the method that National Grid has proposed is the most appropriate way forward offering cost reflectivity and not artificially increasing charges at the peripheries.

EDF Energy supports a stable TNUoS charge and therefore supports the proposal to try and smooth out annual volatility by generating the expansion constant and security factor using a five year average to be fixed at the start of a price control period and only subject to annual RPI increases.

Generation tariff zones

EDF Energy are concerned by the indicative generation tariff zoning provided in the consultation for this proposed modification which differ from that provided in National Grid's previous initial charging consultation. The changes in the generation zones, although minor, can have a significant effect on individual generators and demonstrate the uncertainty associated with these proposed changes. Such fluctuations in charges cannot be easily accommodated by transmission users and are therefore detrimental to competition in the generation of electricity. We believe that stability in the generation zones is needed to ensure that any changes in the methodology do not adversely affect any particular transmission users. The large differences in tariffs between adjacent zones suggest that perhaps the number of zones proposed is not sufficient to ensure that transmission users' charges are cost reflective.

We hope that you will find the above comments useful. If you have any queries regarding the issues raised in this letter, please do not hesitate to contact me.

Yours sincerely,

Rupert Judson
Transmission Infrastructure
& Development Manager