

CONSULTATION DOCUMENT
GB ECM-06

Airtricity Response

Following the pre-consultation, National Grid is proposing the implementation of the Use of System Charging Methodology amendment. Of the three options proposed, this was the most acceptable. However, we note that the concerns raised regarding some aspects of the proposal have not been adequately addressed.

Consistency with Overall Charging Philosophy

We understand that National Grid believes that this option provides the correct balance between complexity and cost reflectivity. Whilst we endorse the recognition of a reduced substation cost being passed through to the user, the introduction of a specific recognized substation cost element into the proposals should be reviewed against the *general* principle that substation costs are apportioned across all connectees using a *non-locational* residual split between generation and demand. It may be that by adopting this approach when dealing with customer choice design variations, other areas of the charging methodology need to be re-examined for consistency.

Balance of Risk

Whilst a user opting for a lower standard of connection will qualify for a reduced level of charges, this decision will be made against a number of variables. These include the prospective level of reduced or non-access to the system due to the reduced standard of connection, the opportunity costs associated with this and the savings to be made. Given that any energy revenue needs to cover all generation project costs, it is necessarily the primary element in assessing project viability. Those decisions are only taken once. As the amendment stands, users opting for a reduced standard of connection could be liable, at any time during the life of the project, for an increase in costs due to the actions of a third party. Those costs will then have to be absorbed by the project.

As such, in the initial assessment, a range of scenarios will need to be developed regarding the probable exposure to increased charges. This in turn will increase the risk premium required on a particular project and will lead to:

- otherwise viable projects not being pursued, and;
- over investment in transmission assets, where an enduring, reduced connection standard (and associated charges) would have been appropriate.

These undesirable outcomes could be avoided by ensuring that once the connection “contract” had been struck between the user and provider, the terms in it were fixed (either for an agreed period of time, or for the life of the project). This is, of course, the form of many commercial agreements. Where external conditions subsequently change, the agreement is still valid, both parties working within its framework.

The absence of any mechanism to allow a project to manage the risk of increased costs during its lifetime, imposed by a third party, is a major flaw in the proposal. Such a mechanism would be a long term tariff agreement, based on the original connection standard. Given the progress generally with this concept, it is unlikely that this route will provide an acceptable solution.

Benefits

National Grid contend that if a generator has accepted a single circuit connection and an additional user applies to connect at the particular busbar/substation, the original generator would benefit from increased security and firm access rights and therefore must be subject to the full TNUoS charge, to allow cost reflectivity and avoid discrimination.

It is precisely that fact that the original generator has already taken the decision that it will *not* derive any **net** benefit from having both a firmer connection and increased costs imposed upon it, which informed the original decision to opt for a reduced standard of connection.

Whilst we understand that National Grid are rightly balancing the issues of cost reflectivity and discrimination, we would suggest that in the case where a users' standard of connection is upgraded (and their costs increased) due to the actions of a third party, then there is a valid case for considering *due* or appropriate discrimination.

The principle that two generators both connected at the same point, with equal levels of security would be subject to different levels of TNUoS charges because of historic connection **decisions** is not inconsistent with National Grid's licence requirement to not *unduly* discriminate between users.