

**Thomason, Alex**

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**From:** keith miller(work) [keith.miller@kenergy.co.uk]  
**Sent:** 10 October 2003 19:19  
**To:** Thomason, Alex  
**Subject:** response to Consultation on Use of System Charging

Dear Alex

Please find below a response on behalf of Teesside Power Limited “TPL” to the consultation document “Modification Proposal to the Use of System Charging Methodology – UoSCM-M-10”: 12 September 2003”.

**Proposed Methodology Change**

TPL notes that the majority of the respondents to the July 2003 consultation supported the adoption of the DCLF Model. Whilst TPL has seen no substantive evidence to support the claims made by NGC regarding improved cost reflectivity and transparency, on the basis of the support claimed by NGC, we are prepared to accept that the proposed move from the ICRP method to a DCLF model will provide these benefits.

TPL notes, however, that, based on the NGC comments in the Consultation Document, the primary objective in proposing the changes to the current use of System Charging Methodology is to introduce a method which makes its charges more cost reflective.

Given that the charges levied for a twelve month period are derived for a specific peak generation and demand pattern, we consider that there is no evidence that the methodology is consistent with the requirement to levy charges which reflect, as far as is practicable, the costs incurred by National Grid in its Transmission Business. We consider that the proposed, and indeed the current methodology is inconsistent with the fact that a generator is required to pay for use of the system irrespective of whether or not it generates at the time of peak demand.

On the basis that the quantum of use of system charge for a generator in a particular zone is determined on the basis that it is generating at time of system peak demand, consideration should be given as to whether it would be more appropriate to levy charges on a generator on the basis of its output at such a time. This would arguably bring generation charges more in line with the Triad charging arrangements for half hourly metered demand. Simply put, we consider that it is questionable whether the basis on which generators are charged is consistent with the methodology proposed for calculating the amount of those charges.

**Locational Security Factor**

TPL agrees with the views of those respondents to the July 2003 consultation which opposed the adoption of a Locational Security Factor. Whilst TPL appreciates the desirability of having a secure transmission system, TPL believes that the costs of providing this security should be recovered through a simple non locational £/MWh commodity charge.

To levy this charge on a user which may, in the event, not make use of the system during the year would appear to be inconsistent with the Transmission Licence conditions referenced in Section 2 of the Consultation Document.

A further consideration is the impact of increased £/MW charges on generation which operates at a low load factors, as a result of the proposed introduction of a locational security factor. The proposed approach will penalise such generation, clearly more in positive than in negative charging zones, compared with a non-locational £/MWh charge. This will increase the likelihood that such generation will be forced to exit from the system, thereby having an adverse effect on the current level of security of supply.

Furthermore, it is our understanding that the transmission system has been developed largely to provide efficient reserve as well as allowing economic power flows between producers and consumers of electricity. We are not convinced that the increase in what is already in our view excessive differentials in zonal variation in charges is justified. Indeed, rather than increasing the differentials as proposed by NGC, we consider that the adoption of a methodology which limits the regional variation would, in our view, be more likely to facilitate competition by reducing the risk associated with future variations due to plant build and closure going forward.

In conclusion, TPL considers that whilst there appears to be general acceptance that the proposed DCLF methodology is an improvement on the existing ICRP method for calculating nodal marginal costs, insufficient justification has been provided for the proposed methodology of taking the nodal marginal costs and deriving zonal use of system charges. Furthermore, we support the objections to the adoption of a Locational Security Factor on the grounds that security of the system represents a benefit to all those who are using the system, and should therefore be recovered through a non locational £/MWh charge.

Finally, as with the other proposed changes to connection and use of system charges, we reserve our position on the proposals until such time as the treatment of users which have adopted less standard charging options for connection has been clarified.

Kind Regards

Keith Miller  
on behalf of Teesside Power Limited

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