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8 September, 2006

Dear Tom,

Pre consultation – Charging and access arrangements for SQSS design variations based on customer requests

Thank you for the opportunity to comment on this pre consultation document. E.ON UK is uncertain that a change is essential in this area at present. However, if such a change were to be made, we would be most supportive of option 3 on the basis of the information available to us at present.

Optional variations

A central principle to this consultation is that it refers to circumstances in which the User has opted for a connection design of a lower standard than would be provided in accordance with the SQSS. These standards have been developed to ensure that the system is planned in such a way so as not to prejudice the security or quality of electricity supply. Therefore, it is important that any changes made to the present arrangements do not result in a large number of Users choosing a lower standard of connection, such that it leads to a lowering of the security of supply of the system.

At present, generators sometimes regard it worthwhile to accept a lower standard of connection in respect of certain power stations. The benefits include the ability to achieve an earlier connection date for the plant or to overcome planning restrictions. In these

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cases the potential loss of revenue due to an unavailability of the transmission network is deemed a risk worth taking to achieve these benefits. It now appears however that Ofgem believes that stronger incentives should be explored which could stimulate a greater interest in this option.

This will not be without cost. Although the effect on balancing costs can be managed through arrangements which do not recompense such generators for the unavailability of any assets which do not meet standards, a general lowering of the security of the system will mean that costs increase elsewhere. For instance, a larger amount of plant may have to be held on the system to reflect the higher risk of stations becoming unavailable from transmission faults. Alternatively, National Grid may be forced to take less uneconomic balancing decisions as more expensive plant is used as it is connected to more robust infrastructure.

Therefore, we agree with National Grid that there may be a case at this time for supporting the status quo. However, if we assume that some change is to be made, our preference at present would be for option 3, a limited change to the charging methodology.

Our comments on the options presented are as follows.

Option 1 – SQSS Modification

We do not support this option as it would discriminate in favour of the generator who has chosen a lower connection standard for its power station. As we mention above, this already has cost implications for the system. If the generator concerned were able to be constrained off through the acceptance of a bid through the Balancing Mechanism, then costs would rise even further.

We agree with National Grid that it would not be possible for the relevant TO to undertake a cost benefit analysis comparing the reduced cost of the connection with a possible increase in balancing costs. Any generators concerned would be able to set their own level of compensation under such a proposal. It would be unrealistic to assume that this would be at a level equivalent to prevailing market prices. Additionally, connections are made for stations which are expected to operate for many years into the future. It would be infeasible for TOs to be able to assess the likely level of market prices, and thus the balancing costs caused by a connection, this far into the future.

Option 2 – Deeper Connection Boundary

Given the relatively recent adoption of a shallow connection policy under the 'plugs' methodology, we do not believe that a return to a deeper boundary would represent a realistic option. We agree that it would allow the full cost signal of adopting a lower standard of connection to be seen by the connecting party. However, the shallow boundary which presently exists was introduced as the effects of the deeper connection methodology on new entrants in particular were seen as detrimental to competition.

We do not believe that Ofgem would support this option either.

Option 3 – Change to the Charging Methodology

If a change is deemed necessary in order to reflect the cost of a design variation, then a limited amendment to the charging methodology would be the most appropriate solution. Any change would have to refer solely to circumstances when a party opts for a connection design which is not compliant with the SQSS. The proposal to apply nodal security factors in these circumstances appears logically sound. We also agree that it would be sensible to only alter the locational charge of such a generator if the difference in cost of applying a nodal security factor compared with applying the national security factor, is more than £1/kW. This would keep the arrangements consistent with the tolerances used for setting the charging zones.

The case for a substation discount is unclear however. At present substation costs are spread across all Users through the fixed part of the tariff. The proposal for a discount would introduce a location specific element to the recovery of substation costs.

It is not possible to comment on the generic savings included in the document as we do not know how they have been calculated. However, we assume that the calculation took into account the fact that a generator would at most only see 27% of the cost of the substation, as 73% would be borne by demand Users of the transmission system. It would not for instance be cost reflective to set the discount as the full difference in the cost of substation assets required for a single circuit solution compared with a fully SQSS compliant solution.

I hope the above comments prove helpful.

Yours sincerely

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Trading Arrangements