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Dear Sir/Madam,

### **GB Transmission Charging: Final Methodologies Consultation**

Thank you for allowing us the opportunity to comment on the GB Transmission Charging: Final Methodologies Consultation. Set out below are EIC's comments on the document.

We acknowledge that the British Electricity Trading & Transmission Arrangements (BETTA) has meant the transfer to a single GB transmission charging system is an incredibly complex issue and we welcome National Grid Transco's (NGT's) efforts to clarify its thoughts throughout the consultation process.

We acknowledge that Scenario B (the multi-voltage expansion factor option) may be NGT's preferred option as it does more closely reflect its relevant objective of cost reflectivity than Scenario A. That is to say it 'results in charges which reflect, as far as is reasonably practicable, the costs incurred by the licensee in its transmission business' across voltage levels, but is it truly cost-reflective across demand and generation customers? EIC objects to NGT's attempts to change the split in transmission charges between generators and demand customers, as it will cause of significant degree of instability in prices.

While Scenario B may be the most appropriate solution, EIC believes that changing the generation/demand split in this way is inappropriate for several reasons, which are outlined below:

#### **Scope of the consultation**

Initially, NGT considered the split between generation and demand (G:D split) as outside the scope of the proposal and yet it has been put forward as a solution to negative demand charges in some regions. It should remain outside the scope of any solution until it has been tackled by a proper consultation. Effectively, NGT is proposing to fundamentally change the basis for Transmission charging, which will have a huge impact on the majority of industrial and commercial consumers throughout the UK, without many of them being aware of this or being given a fair opportunity to respond.

Likewise, EIC believes that stating that the charges will be going in the 'right direction' for the proposed EU tariff harmonisation is inappropriate and should be kept outside the scope of this discussion. Should any regulatory or government body from the UK or within Europe propose changes that may affect transmission charges in the future and in particular the G:D split, then customers should be given the correct opportunity to respond at a later date.

## **Cost reflectivity**

NGT outline that Scenario B offers greater cost-reflectivity, i.e. that it better 'results in charges which reflect, as far as is reasonably practicable, the costs incurred by the licensee in its transmission'. However, NGT have not even considered whether this Scenario better reflects, the costs incurred by the licensee across different sectors (i.e. by demand and generation). Presumably the G:D split was decided upon initially because it was seen to be a fair reflection of the costs borne by NGT from each customer segment.

Furthermore, increasing the amount of charges that demand customers have to pay will surely encourage more industrial and commercial businesses to reduce consumption at times of peak demand. So, will these charges be truly cost reflective if it encourages more TRIAD avoidance?

## **Elastic generation**

NGT outlines in its consultation that generation is generally more 'elastic' compared with most demand. If this is the case, then why is NGT reducing the incentives for generation to locate closer to demand? Having a higher proportion of transmission charges paid for by generators would provide stronger pricing signals to locate to generation close to demand, thereby resulting in a more efficient system and fewer transmission losses.

## **Pass through contracts**

We appreciate that consumers will ultimately pay for the running of the transmission system, whether it is through a higher wholesale cost (if generators bear the brunt of the transmission charges) or through higher demand charges. However, even if these lower generator transmission charges are passed back through a lower wholesale price, consumers on long-term contracts with pass-through delivery charges will be paying higher transmission costs next year, with no opportunity to recover this through reduced wholesale costs.

## **EIC's preferred solution**

Given that EIC agrees with NGT that Scenario B is the most appropriate solution and that negative charges should not be applied to any demand customer in any region, we believe that the G:D split should remain the same, but that any negative demand charges should just be at a de minimus level (i.e. at 0). This would maintain a greater stability in charges for demand customers, while applying the most cost reflective scenario (i.e. using multi-voltage expansion factors).

By forcing through this fundamental change because it fits with the most appropriate charging methodology, NGT is not allowing consumers the opportunity to discuss this issue out of context of the other proposed changes to the transmission system. While, we appreciate consumers will always ultimately pay for these charges, we doubt that lower transmission charges for generators will be passed on to consumers through lower wholesale costs.

We have copied this letter to Ofgem as we believe many of the issues in this consultation should be picked up in a wider context of discussing whether transmission charges are cost-reflective across demand and generation.

We trust that you find these comments helpful. Meanwhile, please do not hesitate to contact either myself, or my colleagues in the Market Analysis team, on (01638) 554935 if we can be of further assistance.

Yours sincerely,

**Matthew Williamson**  
Utilities Market Analyst

cc. Andrew Walker, Director - Transmission, Ofgem.