

Moyle Interconnector Limited
Response to GB Transmission Charging: Final Methodologies Consultation

1. **Executive Summary**

Moyle Interconnector Limited (“**Moyle**”) is strongly supportive of the proposed final methodology in respect of Ownership/Connection Boundaries set out in section 4.1.1 of the GB Transmission Charging: Final Methodologies Consultation Paper dated 20 August 2004 (the “**Consultation Paper**”). Our reasons for this include:

- (a) the proposed final methodology is consistent with the current England and Wales connection charging methodology and therefore it is essential that this be adopted in the final charging methodology for Great Britain. Any other approach would result in connection applicants in different parts of the Great Britain system being treated differently on a completely arbitrary basis in breach of Directive 2003/54/EC of the European Parliament and Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC (the “**Directive**”);
- (b) the connection charging methodology which currently applies in England and Wales was adopted for very good reasons which apply equally in Scotland, including simplicity, transparency, long term robustness, improved contestability of maintenance and facilitation of competition.

In addition, if a “clean break” approach to existing Scottish connections is to be adopted, which we understand was proposed by licensees and is supported by Ofgem, transparent and unambiguous mechanisms must be established to enable connected parties in Scotland to obtain appropriate rebates to which they are entitled in respect of capital contributions paid for existing connection assets which are subsequently reclassified as infrastructure.

However, Moyle is not supportive of the manner in which it is proposed that use of system charges will be levied on transmission connected interconnectors. The current England & Wales use of system charging methodology, which we understand is proposed to be extended to Scotland has materially different impacts on the Moyle interconnector than it had on the principal transmission connected interconnectors in England & Wales. Moyle is typically a net exporter of electricity from Great Britain while the Anglo-French Interconnector is typically a net importer of electricity, a fact which is acknowledged in section 4.2.1 of the Consultation Paper.

The proposed use of system charging methodology materially prejudices intermittent imports of electricity to the point that it will not be economically feasible in the short to medium term to import electricity across the Moyle interconnector. This is a barrier to trade and should be addressed by either:

- (a) preserving Moyle’s current use of system charging arrangements pursuant to which it pays the higher of import and export use of system charges only; or
- (b) treating Moyle in the same way as embedded generation or small scale transmission connected generation.

2. **Non-Discriminatory Approach to Connection Charging**

We understand that the ownership boundaries will be established in the Bilateral Connection Agreement in line with the shallow connection boundary implemented in England and Wales from 1 April 2004. Under this methodology, we understand that the connection/infrastructure boundary would normally fall at the first transmission owned substation, with all shared or shareable assets falling outside of the connection boundary and that the application of this methodology for the identification of connection assets in Scotland will, in many cases, result in a much shallower connection boundary than is currently employed.

The Consultation Paper states that “whilst not explicitly stated in the current England and Wales charging methodology, a similar rule for demand spurs exists and is being applied, which states that the appropriate length for the connecting circuit is 2km. We see no reason why such a rule is not equally applicable to generation connections.”. However, we note that in Paragraph 1.5 of the National Grid Statement of the Connection Charging Methodology effective from 1 April 2004 clearly states that “following National Grid’s extensive Charging Review, the Authority approved a further change to implement a shallow single user boundary definition with no spurs retained within connection”.

Moyle strongly supports National Grid’s proposal that on a Great Britain basis, any connecting circuit greater than 2km in length and at a transmission voltage should be infrastructure and outside of the connection boundary. This is consistent with the current England and Wales connection charging methodology and therefore it is essential that this be adopted in the final charging methodology for Great Britain. Any other approach would result in connection applicants in different parts of the Great Britain system being treated differently on a completely arbitrary basis. This would amount to discrimination in breach of Article 20.1 of the Directive.

Furthermore, for National Grid to apply a different connection charging methodology in Scotland and England and Wales would amount to a breach of National Grid’s obligations as transmission system operator under Article 9(e) of the Directive in relation to ensuring non-discrimination between system users or classes of system users.

3. **Simplicity, Transparency, Robustness and facilitation of Competition**

National Grid has expressed the view in the Consultation Paper that the shallower connection boundary based on single user assets which received regulatory approval of the methodology in December 2003 has a significant number of advantages over the previous arrangements (and the current Scottish arrangements) including:

- (a) simplicity;
- (b) transparency;
- (c) long term robustness;
- (d) improved contestability of maintenance; and

- (e) it better met the relevant objective regarding the facilitation of competition.

Moyle agrees with the view expressed by National Grid in the Consultation Paper that to the extent that these conclusions were correct in England and Wales, they are equally applicable to Scotland. Therefore, Moyle is strongly of the view that the shallow connection charging methodology proposed in the Consultation Paper ought to be adopted in Scotland for all of the reasons that it was determined that it should be adopted in England and Wales.

4. Clean Break Approach

Finally, it is critical that if a “clean break” approach to existing Scottish connections is to be adopted, which we understand was proposed by licensees and is supported by Ofgem, transparent and unambiguous mechanisms must be established to enable connected parties in Scotland to obtain appropriate rebates to which they are entitled in respect of capital contributions paid for existing connection assets which are subsequently reclassified as infrastructure.

Furthermore, it is critical that to the extent that rebates are paid in respect of assets that remain classed as connection assets, that the rebates received are equivalent to any upfront payment of connection charges to National Grid. It is not acceptable that any connected party be put in a situation where it receives less by way of return of capital contributions for connection assets from Scottish licences than it has to pay to National Grid by way of capital contribution in respect of the same assets.

In these circumstances, it would be clearly preferable for connected parties to simply elect to have their connection assets treated as if they were paid for in full and have any financial adjustment necessary made between NGC and the relevant Scottish licensee.

5. Use of System Charges

Section 3.3 of the Consultation Paper states that in England & Wales, TNUoS charges are applicable to both generation and demand and are levied on suppliers, generators and interconnector asset owners. It is implicit in this that interconnector asset owners may be liable to both generation and demand charges if they both import and export electricity. It is further understood that it is proposed to adopt this approach under BETTA. However, pursuant to Moyle’s current use of system charging arrangements, it only pays the higher of import and export use of system charges.

Moyle is not therefore supportive of the manner in which it is proposed that use of system charges will be levied on transmission connected interconnectors. As a result of the nature of the usage of Moyle, the proposed BETTA use of system charging methodology will have a material adverse impact on Moyle, which it does not have on the Anglo-French Interconnector. The reason for this is that Moyle is typically a net exporter of electricity from Great Britain while the Anglo-French Interconnector is typically a net importer of electricity, a fact which is acknowledged in section 4.2.1 of the Consultation Paper and is reflected in the way that it is proposed to model each interconnector for charging purposes.

The proposed use of system charging methodology materially prejudices intermittent imports of electricity to the point that it will not be economically feasible in the short to medium term to import electricity across the Moyle interconnector. This is a significant barrier to trade and the charging methodology should be modified to ensure that this does not occur. Moyle is strongly of the view that the most appropriate way of doing this is to preserve its current use of system charging arrangements pursuant to which it will pay the higher of import and export use of system charges only.

Alternatively, it should be recognised that Moyle will only be offered a TEC of 80MW, which will at most offset a small amount of the normal flow in the transmission system in the south west of Scotland. As a result, any import of electricity into Great Britain up to this limit is unlikely to have any impact whatsoever on the Scottish system in terms of necessary reinforcements. In this respect Moyle is similar to embedded generation or small scale transmission connected generation and should certainly not be treated in a manner which leaves it any worse off than such generation.

We understand that embedded generators who are not capable of exporting 100MW or more to the total system are not liable for TNUoS charges at all and small scale transmission connected generators pay reduced TNUoS charges. We also understand that the same charging methodology will apply to generation connected to the 132kV transmission network in Scotland with a capacity less than 100MW (i.e. those parties whom on the basis of size would not be liable for TNUoS if they were distribution connected).

We understand that the rationale for this is that embedded generation and small scale transmission connected generation is unlikely to generate sufficient electricity to require material network upgrades and therefore do not justify payment of full TNUoS charges. Given Moyle's TEC of 80MW and the nature of the transmission system in the south west of Scotland, no such network upgrades would be required and therefore it is not appropriate that Moyle should pay both generation and demand TNUoS. In this respect, it is strongly arguable that Moyle should be treated as embedded generation and exempted from payment of TNUoS altogether.

If Moyle is subject to payment of both demand and generation TNUoS as is currently proposed, this will effectively eliminate the possibility of imports of electricity from Ireland to Great Britain in the foreseeable future. Facilitation of cross border trade is a fundamental principle of both the Directive and Regulation 1228/2003 on cross border exchanges in electricity (the "**Regulation**") and a charging methodology which has the practical effect of eliminating any such trade cannot be viewed as being consistent with the spirit or intent of either the Directive or the Regulation.

Moyle Interconnector Limited
Response to GB Charging - Consultation and Impact Assessment

1. Introduction and Summary

Moyle Interconnector Limited (“Moyle”) welcomes the opportunity to respond to the Authority’s consultation on the proposed transmission charging methodologies of the GB system operator. This response addresses one specific issue related to generation TNUoS charging (paras. 4.129 to 4.137 of the Authority’s consultation document) - that of the application of such charges to all transmission connected interconnectors without taking account of the particular circumstances of the Moyle Interconnector. Moyle responded on this issue to the August 2004 consultation of National Grid Company (“NGC”) and that response has been published on NGC’s website.

Unfortunately the case made by Moyle has not been adequately addressed in NGC’s 30 September 2004 Conclusion Report to the Authority (“the Conclusion Report”).

Moyle considers that the relevant provisions of the proposed use of system charging methodology are inappropriate on the grounds that the current England & Wales methodology, proposed to be extended to Scotland, would have materially different impacts on the Moyle Interconnector and those who use it for trade between Northern Ireland and Great Britain than it had on the principal transmission connected interconnectors in England and Wales. Those impacts are both anti-competitive and non-cost-reflective.

Application of the England and Wales methodology to an interconnector which has a radically different pattern of trade would materially prejudice imports of electricity to Great Britain, to the point that it will not be economically feasible in the short to medium term to import electricity across the Moyle interconnector, and would be a barrier to trade. The resulting elimination, or even diminution, of the prospect of competition from generators in Ireland into the market in Great Britain could not be in the interests of consumers in Great Britain.

Further, this aspect of the proposed charging methodology would fail to facilitate cross border trade in electricity as required by European law.

It is accepted that NGC’s fundamental principle of TNUoS charging, the basing of charges on expected behaviour at the peak, is appropriate and cost-reflective. NGC’s modelling of Moyle as demand and application to it of TNUoS demand charges are consistent with this principle. However, the application of generation TNUoS charges in addition is inconsistent with the principle and therefore such charges cannot be cost-reflective.

Assessing the proposed imposition of generation TNUoS charges on Moyle against Ofgem’s assessment framework, it is concluded that the proposal:

- would be contrary to the Authority’s principal objective and to its duties under European law; and

- would fail to meet NGC's licence objectives of facilitating competition and reflecting system costs.

It is therefore submitted that the application of generation TNUoS charges to Moyle should not be approved. Moyle has previously proposed to NGC two alternative ways in which the problems with the proposed methodology could be remedied and it is submitted that NGC's proposed methodology should be modified in one of these ways:

- by preserving Moyle's current use of system charging arrangements pursuant to which it pays the higher of import and export use of system charges only; or
- by treating interconnectors in the same way as embedded generation or small scale transmission connected generation by exempting interconnectors with a TEC of less than 100 MW from generation TNUoS charges.

2. Competition Considerations

Due to the relative prices in the electricity markets of Great Britain and Ireland, it has to date not been economic for electricity traders to import across the Moyle Interconnector into Great Britain and it is expected that the predominant flows will continue to be from Great Britain to Northern Ireland for the foreseeable future. Nevertheless, it is likely that over time there will be some convergence between the two markets, making imports into Great Britain economic in an increased number of time periods during the year. Such trade would enhance competition in the market in Great Britain, to the benefit of customers.

Any such intermittent imports would be materially prejudiced by the proposed use of system charging methodology to the point that it will not be economically feasible in the short to medium term to import electricity across the Moyle Interconnector. This is a significant practical barrier to trade and is thus anti-competitive.

It is important to recognise that the competition issue here is not that of ensuring a level playing field as between Moyle as a generator in Scotland and other generators in Scotland or Great Britain as a whole. The Moyle Interconnector is not a generator but the means of transporting the output of generators in Northern Ireland and the Republic of Ireland to the market in Great Britain. Such generators will already have been subject to TUoS charges in Ireland in addition to the cost of acquiring Moyle capacity and thus would already be at a competitive disadvantage in relation to generators in Great Britain. The issue therefore is that of avoiding the imposition of additional charges ("pancaking") which would increase that existing competitive disadvantage, particularly when no such charges exist at present and the proposed charges are not cost-reflective in system terms.

Last week, the Northern Ireland Authority for Energy Regulation (Ofreg) hosted a briefing meeting for members of the IME Group (the forum for participants in the electricity market in Northern Ireland convened under the auspices of Ofreg). On being briefed on NGC's charging proposals, members of the Group expressed concern at the adverse effects on trade between Northern Ireland and Scotland of the proposed application of both generation and demand TNUoS charges to Moyle and sought

assurance that everything possible would be done to remove this barrier to trade. The matter is to be on the agenda for the next meeting of the full IME Group.

It is concluded that if Moyle is subject to payment of both demand and generation TNUoS as is currently proposed, this will effectively eliminate the possibility of imports of electricity from Ireland to Great Britain in the foreseeable future. The elimination, or even the diminution, of competition from generators in Ireland must be contrary to the interests of consumers in Great Britain.

Further, facilitation of cross border trade is a fundamental principle of the EU legislation on cross border exchanges in electricity and a charging methodology which has the practical effect of eliminating any such trade cannot be viewed as being consistent with the spirit or intent of that legislation.

3. System Design and Cost Reflectivity

The proposed methodology for TNUoS charges on interconnectors, i.e. the application of both generation and demand charges, was developed in England and Wales to take account of the system impact of the trading pattern across the Interconnexion France-Angleterre (“IFA”) and the Anglo-Scottish Interconnector which were net importers of electricity. The Moyle Interconnector, on the other hand, is a net exporter from Great Britain and is expected to be so for the foreseeable future. This difference is explicitly recognised by NGC at para. 4.2.2. of the Conclusion Report and is reflected in the way each of the interconnectors which will remain post BETTA Go-live is modelled.

The fundamental principle of the charging methodology (Conclusion Report, para. 4.2.1) is that charges are based on the marginal costs of investment in the transmission system, based on a study of peak conditions. The modelling recognises that the Moyle Interconnector’s impact on the GB system is as demand at system peak and the application of demand charges is therefore consistent with the fundamental principle.

However, when account is taken of its location on the system and the relatively low level of any import to the GB system across the Moyle Interconnector which may occur from time to time, it is evident that any such import would not provoke a need for system reinforcement of the radial 275 kV system in the south-west of Scotland. On the contrary it would, if it occurred at the peak, reduce the possible need for reinforcement. Its effect on the system is therefore analogous to that of embedded generation and it should be treated in the same way in respect of generation charges. It is not analogous to transmission-connected generation since the system must be designed and modelled for import from the latter, whereas the system is designed and modelled for export from the Moyle Interconnector. The application of generation charges is not, therefore, consistent with the fundamental principle.

It is concluded that as the marginal system investment costs imposed by the Moyle Interconnector are demand- rather than generation-related, the proposed application of generation TNUoS charges to the Moyle Interconnector does not meet the test of cost-reflectivity.

4. **National Grid Response**

In the Conclusion Report, NGC has responded to the submission made by Moyle on this issue in NGC's Final Methodologies Consultation. Regrettably, the response does not address the case made or the issues of principle involved but responds on the level of interpretations of categories of user in the wording of the documents.

Neither the competition issue nor that of cost-reflectivity is adequately addressed in the NGC response.

It does not answer Moyle's case to say that all parties connected to the system should be liable for TNUoS charges or that any party wishing to import on to the system is required to register a TEC since those points are not in dispute. Nor does it answer the case to say that NGC does not believe that a directly connected party can be treated as embedded generation since that was not suggested. Nor is the issue about subsidies since no subsidy is sought.

The case made to NGC was that in its proposed methodology for setting and applying TNUoS charges to interconnectors, NGC has (apparently on the assumption that all interconnectors are the same) taken a methodology developed for other interconnectors having different patterns of trade and different system impacts and has applied this methodology to the Moyle Interconnector without recognising these differences. It was further argued that, in respect of any imports to Great Britain, the system impact of the Moyle Interconnector is more analogous to embedded generation than to existing interconnectors. Recognition of these factors would result in a modified charging methodology which combined the appropriate elements of the present proposed methodologies. This could be done appropriately and simply by exempting interconnectors with a TEC of less than 100 MW from generation TNUoS charges.

Unfortunately, NGC has chosen not to address this valid case which is soundly based on the fundamental principles of its own methodologies.

In the context of the EU Cross Border Trading (CBT) scheme, NGC's response refers to the future necessity to review their charging methodologies to interconnector owners to avoid tariff pancaking. This may be a reasonable approach for interconnectors now covered by NGC's methodologies where such pancaking exists at present. However, in relation to interconnectors not now covered by these methodologies and where there has been no generation charge pancaking prior to BETTA Go-live, a more reasonable approach would be to review the application of NGC's methodologies now to ensure that such pancaking is not introduced in the first place.

5. **Ofgem's Assessment Framework**

The Authority's consultation document sets out, in Chapter 3, the framework against which it will assess NGC's proposed methodologies:

- its own statutory duties and other obligations, particularly its principal objective of protecting the interests of consumers, where appropriate by promoting effective competition; and
- the degree to which NGC's proposals meet the objectives for the methodologies set out in its amended licence - facilitating competition, reflecting the costs of the transmission system, taking account of developments in the transmission system and not discriminating.

It was concluded in section 2 of this response that imports of electricity from Ireland to Great Britain would be effectively eliminated for the foreseeable future as a consequence of the proposed application of generation TNUoS charges to Moyle. The effect of such charging would therefore be contrary to the promotion of effective competition and to the interests of consumers in Great Britain. It is therefore submitted that approval of this charging methodology would be contrary to the Authority's principal objective. It is further submitted that it would be contrary to the Authority's duties under European law to facilitate cross-border trading in electricity.

As described in section 4, NGC has not responded to the case made by Moyle that this aspect of its charging methodologies would diminish competition. In so far as it has addressed the issue, it has argued that the Moyle Interconnector must be treated as a generator in Great Britain which clearly it is not. This failure to recognise and take account of the real competitive situation has resulted in the charging methodology failing to facilitate competition and thereby failing to meet that licence objective.

Section 3 of this response recognised and accepted as cost-reflective the fundamental principle which underlies the cost-reflectivity of NGC's proposed charging methodology - that charges are based on the marginal costs of investment in the transmission system, based on expected behaviour at the peak. It was concluded that the application of demand TNUoS charges to Moyle would be cost-reflective. However, the application of generation TNUoS charges in addition would not be cost-reflective so that licence objective would not be met.

It is therefore concluded that the application of generation TNUoS charges to Moyle should not be approved since:

- it would be contrary to the Authority's principal objective and to its duties under European law; and
- it would fail to meet NGC's licence objectives of facilitating competition and reflecting system costs.