

Maloney, Craig

From: Helen Snodin [helen.snodin@xeroenergy.co.uk]
Sent: 31 March 2009 16:11
To: Maloney, Craig
Cc: 'BWEA Gordon Edge'; 'Robert Longden'; 'Nic Rigby'; 'Richard Ford'
Subject: GB ECM 13 response from BWEA

Dear Craig

I am making this response on behalf of my client the British Wind Energy Association (BWEA).

Many thanks for the opportunity to comment again on options for charging for the residual element of TNUoS.

Commoditised option

BWEA's view has always been that a commoditised charge is the best solution. This is not because it actively favours low load factor generation, but because it goes some way to addressing the inequity of charging for access on a purely capacity basis.

On principle, BWEA does not think it is right to consider the residual charge in isolation from the overall tariff structure and the suite of access products available. If the only access product available is TEC at rated capacity, then a charge against purely rated capacity does not account for the lower build levels for, and lower usage by, low load factor plant. If future access products allow generators to be more sophisticated in their access bookings then this alters the argument on whether charges should be capacity or energy-based.

Furthermore BWEA considers that the debate around the assets for which the residual is said to account for is rather academic. The locational part of TNUoS is a future investment signal which is unrelated to the existing costs of the system. The residual mops up the difference.

The debate should be much wider than attempting to identify some notional assets for the residual charge. If the intention is for charges to be levied cost-reflectively based on which assets a generator makes use of, then National Grid should go back to a deep charge. Our understanding is that this is not the intention and for the avoidance of doubt BWEA believes that this would not be the right thing to do, and especially so for the wider, very shared and interdependent, MITS.

The LCN Option

If the Residual is charged against LCN, this is effectively the "no change" option and the justification for this in the consultation is partly on the basis of the limited if any impact on existing users. We do have some difficulty understanding this rationale in the context of the need for change to the access regime. BWEA strongly believes that low load factor generators are currently over-charged. As the network and its operation changes over time in the future, the justification for moving away from a purely capacity-based charging regime is strengthened.

However we do recognise the issues with respect to existing investments and comment further on this below under "impact on existing users."

BWEA would also note that many of the respondents in support of the LCN option appear to do so on the grounds that it incentivises users not to hold on to their LCN and block other users from using the assets charged for via LCN. BWEA would note that during the TAR Working Groups these same respondents argued against LCN being a finite right on the grounds that it represented generator-only assets for which there was no competition for access. These arguments are clearly incompatible.

BWEA considers it wholly inappropriate that any user should pay for the Residual having failed to secure any wider access. In the context of a user with LCN but no long-term access, a user's liability for the Residual should at most be linked to their utilisation of the short-term products.

Impact on existing users

BWEA accepts that large windfall losses or gains are difficult to justify. However, this is an argument for phased implementation or for mitigating the impact for affected generators. It is not an argument for maintaining the status quo. We would also note again that changes to the Residual should not be seen in isolation and that any impacts should be considered in the context of collective changes to the access regime.

Implementation

We would be concerned if there were to be piecemeal changes to tariffs, following on from for instance the introduction of GB ECM 11 before TAR had run its course. If the Residual remains (effectively) unchanged, and GB ECM 11 (and now GB ECM 08) are introduced, the impact will have been to target more costs onto generators outside the MITS and to retain the existing inequities for low load factor plant.

The effect of keeping the residual as a capacity charge could be redressed somewhat by some changes to long-term access and options over how much access generators need to book, but if these changes are introduced later rather than sooner, then TAR's early achievements will not in any way reflect the aspirations around creating an access regime fit for the future mix of technologies. Rather it will have re-inforced the existing, out-dated, system.

I hope you find these comments useful and please don't hesitate to contact me if you would like to discuss any aspect of this response.

Kind Regards

Helen



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31st March 2009

Dear Craig,

Thank you for the opportunity to respond to the consultation on the treatment of the residual generation tariff in the calculation of Transmission Network Use of System (TNUoS) tariffs (GB ECM-13). This response is on behalf of the Centrica group, excluding Centrica Storage. In this response we outline our views on the appropriateness of short-term holders of transmission access paying residual TNUoS, the suitability of a utilisation-based charge for calculating the residual element of the generation tariff, and the proposed methodologies for calculating monthly charges.

Whilst we understand that TAR has the potential to introduce more short-term transmission access products, thereby potentially making TEC a less relevant basis for charging, we do not believe that Users choosing LCN + short-term products should be treated differently from those with long-term access rights. Users of both short-term and long-term access products benefit from wider access that has been provided as a result of historic and lumpy investment in both locational and non-locational transmission assets. As such, all Users of the transmission system should be subjected to the full residual charge. It is for this reason that we support a capacity-based charging regime as outlined in option 2 (Local Capacity Nomination).

By the same token we would strongly oppose the introduction of a residual TNUoS charge calculated on a usage basis, either in the form outlined in option 1, whereby the residual element of the TNUoS generation tariff is charged on a half-hourly metered generation basis (£/MWh), or as in option 3, whereby Users are charged on a 'daily peak generation' basis for usage of the network during peak times (16h00 to 19h00).

Option 1 (commoditisation) does not accurately target the costs of building and securing the transmission system on those parties causing the costs. In general, it is the *capacity* of a generator that determines the required investment in the transmission network, not the *load factor*. For example, if a generator has a 100MW power station which runs at 10% of its capacity for 360 days per year but operates at 90% on the remaining 4 days, the transmission system must nevertheless be built to accommodate the 100MW of generation. Hence, any move away from a charge based on capacity toward one based on utilisation will lead to a misallocation of costs and such a scheme will result in a cross-subsidy from high load factor generators to low load factor generators.

Another disadvantage linked to this approach is the potential high level of price volatility given that £/MWh tariffs will necessarily be based on National Grid's annual generation forecast. Although

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National Grid claims that based on past experience (going back to 2005/2006 and replicating a commoditised residual TNUoS tariff based on forecasts) such an approach would not increase volatility, Centrica believes that history does not preclude this from happening in the future.

As well as containing all the flaws of option 1, the peak charging proposal as outlined in option 3 has some additional drawbacks. The first issue is that it acts as a disincentive to generate during peak times, which can only be seen as detrimental to the stability of the GB system. Such an approach will become increasingly undesirable as system margin decreases further over the next decade. It is precisely for this reason that similar proposals have been rejected in the past.

Another major problem with a peak-time utilisation charge is that it has the potential to impact the energy markets on an intra-day basis, as generators will seek to price cost-reflectively. It also has the potential to introduce a cross-subsidy from Users that generate primarily during peak times to those that generate off-peak. This will have a particularly acute effect on peak generators as they will be exposed to those settlement periods when National Grid is recovering the full residual amount (i.e. between 16h and 19h) without being able to spread its cost recovery over the settlement periods when residual TNUoS is not charged (i.e. between 19h00 and 16h00). By the same token, if a User chooses to generate during the non-peak period, they would not face any residual TNUoS charge. Again, this goes against National Grid's explicit goals to create a charging system that is cost reflective, as these Users would not be subjected to the full recovery of residual TNUoS. We also question the rationale behind the proposal that the peak period be between 16h and 19h given that the most logical time slot would be EFA block 5, running between 15h and 19h.

National Grid has put forward two methodologies for charging residual TNUoS that are applicable to both the commoditisation option and the peak generation option. The first option, which is favoured by Grid, involves Users forecasting their annual metered generation and being charged monthly on the basis of the forecast. The second proposal is to calculate monthly charges in a similar way to BSUoS, which would see Users charged on available metered data subsequently reconciled following the availability of the required metering data. Centrica does not see any logic in opting for such a methodology when metered data is available, and we would note that current security requirements for BSUoS are only at the maximum a month's liability. Basing residual charging on forecasts involves a high level of complexity, and given the difficulty in forecasting electricity generation, has the potential to see periods of significant overrun or under run. This would import additional uncertainty into utilities' finances at a time when financial stability is an increasingly valuable commodity. As such we believe that the billing and reconciliation process for BSUoS functions well and is the preferred option with regard to residual TNUoS.

I hope you find these comments useful. If you want to discuss any element of this response, please do not hesitate to contact me on 07789 579169 or at Ricky.Hill@centrica.com.

Best regards,
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31st March 2009

Dear Craig,

GB ECM-13 Treatment of the Residual Generation Tariff Consultation Response

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. We are pleased to have the opportunity to respond to the Charging Consultation on the treatment of the residual generation tariff in the calculation of TNUoS Tariffs.

To date, with regards to all our comments related to the ongoing Transmission Access Review work, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved.

As stated in our previous response, Drax believes that the most optimal solution would be Option 2, Local Capacity Nomination. This option incentivises the *most efficient* use of local capacity, whilst simultaneously targeting costs on all users that *hold the option* to use capacity. It is our belief that the cost of transmission access is not just the value of the access that a generator uses, but also the cost of the ability to hold an option to generate; this should be reflected in the application of the residual charge.

Drax maintains that Option 3, Daily Peak Generation, could provide an adequate compromise solution, due to the fact that the methodology targets the residual costs at those that use the system during its busiest time, whilst still promoting the efficient use of booked capacity (i.e. higher load factors). However, Drax still remains unconvinced that there is a strong justification for moving away from the current charging principles; especially considering such a methodology, as illustrated by the consultation document, would create significant winners and losers in the process.

With regards to Option 1, Commoditisation, the suggested approach effectively penalises those that use their booked LCN and wider access capacity, whilst simultaneously providing a framework that encourages those that do not use their capacity to hold on to their booking rather than releasing the rights to allow others to connect (thus leading to inefficient investment on the part of National Grid). In fact, it could be argued that a plant that uses its connection more would effectively cross-subsidise the connection of a similar plant that uses its connection less. Again, surely the system should provide an incentive to those Users that make more efficient use of their connections, *not reward those that hold capacity (of any type) and do not use it*. Further to this, Drax does not believe that a commoditised transmission access charging approach could be seriously considered without reassessing the current G/D split prior to the implementation of a commoditised residual tariff solution.

We welcome National Grid's comments on its preferred option. Drax does not believe that it would be in the interests of industry investors, nor National Grid, to make a significant change to the charging principles at this stage of the Transmission Access Review without considering all aspects of how the

charging regime works. As stated previously, a radical change in charging principles should be founded upon an in-depth investigation into the appropriateness of all aspects of transmission charging, including the G/D split.

In Summary, Drax remains convinced that the residual tariff should be based upon Option 2, Local Capacity Nomination (LCN). Whilst we welcome the extra analysis provided by National Grid, our views remain unchanged from our previous response, which is attached (for reference) in Appendix 1.

If you have any queries regarding the comments in this response, please feel free to contact me.

Yours sincerely,

Stuart Cotten

Regulation
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8th December 2008

Dear Craig,

GB ECM-13 Treatment of Residual Generation Tariff Consultation Response

Drax Power Limited is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. We are pleased to have the opportunity to respond to this consultation regarding the treatment of the Residual Generation Tariff.

To date, with regards to all our comments related to the ongoing Transmission Access Review work, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved.

Upon reading the consultation document, Drax believes that the residual tariff should be based upon Option 2, Local Capacity Nomination (LCN). This is due to the fact that all generators would hold capacity, regardless of whether they have procured (a) local capacity with an option to use short-term wider capacity, or (b) a mixture of local and long-term wider capacity. Even when an existing User only holds *local capacity*, the User is still potentially blocking a new entrant from holding LCN at that point in the system, who may have a better economic model that enables them to make better use of wider access products. Therefore, *all Users* should have to pay for the residual tariff, in order to incentivise those that do not use their LCN to relinquish their rights in order to allow those that could use the local connection more efficiently to connect (in turn aiding competition). Plus, if an overrun product is introduced, all Users with LCN are effectively *guaranteed* to be able to gain access to the wider network; Users should only hold such a right if they intend to use it. Holders of LCN should be incentivised not to block new entrants by holding onto a right they do not use.

As the consultation document states, "TNUoS charges reflect the cost of installing, operating and maintaining the transmission system." We agree with this statement; it is our belief that the cost of transmission access is not just the value of the access you have used, but also the cost of the ability to hold an option to generate; this should also be reflected in the application of the residual charge. The document goes on to argue that "[g]iven the potential introduction of a range of short-term access products proposed by CAP161-164, the Working Group considers that it will no longer be appropriate to charge the residual element of TNUoS tariffs on TEC, as it is foreseeable that Users will be in a position to obtain access to the transmission system on a short-term basis with no requirement for TEC." We do not consider this to be a valid argument; given the potential ability of a User (with LCN) to use short-term

products at any time, including the potential ability to overrun onto the system, the System Operator must still make strategic transmission access decisions and investments based upon the ability of all Users to generate at a given time. The fact is that significant investments must be made to connect and maintain the connections of all Users, regardless of whether the given User makes use of long-term wider access, short-term wider access or no wider access products.

With regards to Option 1, Commoditisation, the consultation document states that the effect of a commoditised approach would mean that “a generator with a load factor in excess of ~50 percent for the charging year would be subject to a greater annual residual charge than had that been levied on TEC... [t]he reverse is equally true for plant with an average load factor of less than ~50 percent.” Given that it is possible that a similar level of investment could have been made on two separate plants of similar size, with the plant that uses the system less being charged less under a commoditised scheme (due to a low load factor), the commoditisation of the residual tariff would, rather perversely, reward the plant that uses its connection less efficiently. In fact, it could be argued that the plant that uses its connection more would effectively cross-subsidise the connection of the similar plant that uses its connection less. Again, surely the system should provide an incentive to those Users that make more efficient use of their connections, not reward those that hold capacity (of any type) and do not use it.

Drax would also like to note that we agree with those Working Group Members that believe an adequate justification to move away from the peak demand principle behind the ICRP methodology has not yet been made by National Grid; the proposals, thus far, have been developed upon dubious grounds for change. Drax urges National Grid to provide more in-depth analysis and a stronger rationale for the move away from the current charging principles.

Further to this, Drax believes that if a stronger justification for moving away from the current charging principles can be demonstrated, and a commoditisation approach is to be seriously considered, it should be considered alongside a change to the G/D split. It may be appropriate to move to a G=0 approach at the same time as implementing a commoditised residual TNUoS model. This would ensure that a truly fair commoditisation scheme would exist, removing the adverse effects of transmission charging from the economics of the wholesale market and basing it upon demand. The Working Group would have to consider appropriate analysis for such a model.

With regards to Option 3, Daily Peak Generation, we believe this option may provide a compromise solution. Such a solution could provide the right incentives for those that make the most efficient use of the system (i.e. no charges outside peak times), whilst directing charges to those generators that create the congestion on the system during peak periods. It is arguable that the transmission system is built in such a way as to help cope with the demand at peak times during the day; this results in a proportion of the capacity only being used to provide peak capability. As the system is built to cope with these peak periods, the residual charge could be targeted at those that use the system during these peak times. However, again, it would seem appropriate for National Grid to provide more in-depth analysis and a stronger rationale for the move away from the current charging principles prior to moving to any commoditised approach (whether peak hour based or not).

Summary

In summary, Drax believes that the most optimal solution would be Option 2, Local Capacity Nomination. This option incentivises the most efficient use of local capacity and targets costs on *all users* that hold the option to use capacity, as such capacity is built and maintained to accept peak demand, regardless of the type of access product a user procures. We also consider that Option 3, Daily Peak Generation, could provide an adequate compromise solution; this solution targets the residual costs at those that use the system during its busiest time, whilst not penalising those that use their capacity most efficiently (i.e. those with high load factors). However, National Grid should provide further rationale for moving away from the current charging principles.

Currently, Drax cannot support Option 1, Commoditisation. Such an approach only appears to penalise those that use their LCN and wider access capacity (regardless of type) most efficiently, whilst not incentivising those that do not use their capacity to relinquish their rights and allow others to connect. As mentioned above, due to the change of charging principles under this model, consideration should be given to the current G/D split (i.e. maybe the consideration of an Option 4 with a G=0 approach) prior to

the implementation of a commoditised residual tariff solution. A radical change in charging principles should be founded upon an in-depth investigation into the appropriateness of all aspects of transmission charging, including the G/D split.

We look forward to reading National Grid's comments on the consultation responses. If you have any queries regarding the comments in this response, please feel free to contact me.

Yours sincerely,

Stuart Cotten

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31 March 2009

Dear Craig,

We are pleased to have the opportunity to comment on the "TNUoS Residual" charging consultation. We would like to thank National Grid for this further consultation which includes additional analysis as requested by industry parties. The commentary in this report allows parties to consider the full consequences of the three charging options proposed and therefore respond appropriately.

EDF Energy supports the continued charging of the TNUoS residual on a capacity [£/kW] basis, that is Option 2 in the consultation document levied on "Local Capacity Nomination (LCN)". EDF Energy do not support charging on the basis of utilisation [£/MWh] (Option 1 "Commoditisation", or Option 3 "Daily Peak Generation").

We note that National Grid indicates a preferred option in this document to levy the residual tariff on the basis of LCN. In coming to this conclusion National Grid identifies that this option meets the relevant charging objectives, we support this view and our response to this consultation has the following further key points:

- The transmission system is designed on a capacity basis as specified in the GB SQSS and therefore charges should be levied on generator capacity
- National Grid has not provided any rationale or justification for a move away from the existing principles of levying generator use of system charges on a capacity basis
- All generators with access rights should contribute to the recovery of the residual revenue and that this can continue to be charged on the basis of capacity using the Local Capacity Nomination
- A utilisation charge (£/kWh) is an unnecessary and fundamental change to transmission charging. It is secondary to the objectives of the transmission access review
- A utilisation charge will create instant winners and losers and cross-subsidies amongst industry parties as detailed in the consultation document

Transmission system design and charging

Transmission planning under the GBSQSS is quite rightly based on the availability of capacity over winter peak conditions, not on utilisation. Whilst some assumptions of typical operating regime may be made in designing generation connections two generating plants of the same capacity and fuel type will be treated in the same manner by National Grid. Capacity charging ensures that the basis is transparent and non-discriminatory and until such time that transmission system design is made

on the basis of something other than generator capacity, we do not believe anything other than a capacity based charge is appropriate.

Principles and background of the current use of system charging arrangements

The transmission system has been designed and built to ensure transport capability and a secure network is provided at times of winter peak. As it is winter peak conditions which determine the capacity required on the network it therefore follows that charges be based on capacity. These principles of Investment Cost Related Pricing (ICRP) are set out in National Grid's document 'Transmission Use of System Charges Review: Proposed Investment Cost Related Pricing for Use of System (30 June 1992)'. The ICRP principles behind the current methodology for transmission use of system charges make it very clear that charges be based on capacity and this has been the case since 1993/94.

As discussed in the consultation document the residual charge makes up the majority of National Grid's allowed revenue and EDF Energy believes that all generators which have any form of access should contribute to these costs. We note that the non-locational elements of allowed revenue will relate considerably to parts of the transmission system, such as substations which are built on the basis of providing network capacity. Furthermore, "National Grid could find no evidence that intermittent generation consistently causes less investment on the transmission system than conventional" as presented in the consultation document also demonstrates that there is no evidence that this charge should be levied on anything other than capacity.

Rationale for kWh charging

We have sought a robust justification for a kWh charge and as discussed above no such arguments have been presented. Whilst the introduction of a right to access the system other than through securing transmission entry capacity (TEC) may result in a change in how the system is used (as suggested in the pre-consultation document) there has not been such a change to date. Therefore there is no evidence to suggest that anything other than capacity based charging is appropriate.

Consequences of kWh charging

EDF Energy believes it inefficient for fixed costs to be charged on a marginal basis. The structure of charges should reflect how costs are incurred, so fixed investment costs and marginal operating costs should be charged as fixed and variable costs respectively. There are a number of wider considerations that may result from the proposal of a kWh charge.

The residual commoditisation proposal changes the recovery of ~£300m from a fixed cost £/kW to a variable cost £/MWh. It would be included in the marginal cost of generation and would affect pricing in the wholesale electricity balancing mechanism and forward market.

EDF Energy is concerned that a marginal cost £0.95/MWh price signal may have consequences on the market arrangements, such as an increase in wholesale and hence retail electricity prices as marginalised charging of the TNUoS would amount to a unified £/MWh cost for all generators.

This proposal has a significant impact on industry parties, creating big winners and losers, as shown in figure 12 in the consultation. This is true for the daily peak generation variant as well as the "straight" £/MWh commoditisation proposal. This unexpected major financial "hit" on some firms and windfall to others, does nothing to facilitate competition, indeed it is likely to damage investor confidence in the UK generation sector as it creates the perception of an unstable and arbitrary transmission charging regime.

We also consider that kWh charging may create discrimination between classes of generators. For example dispersed low-load-factor generation located away from demand centres, such as wind, are likely to be on average undercharged compared to the costs that they impose on the transmission system.

Summary and Conclusions

The correct option for charging the residual is through the Local Capacity Nomination (LCN), as this is consistent with the process for planning the system.

We agree with National Grid's support for this position in the consultation document, and would urge National Grid to put this one option forward into their conclusions report to the Authority. We also support the suggestion that if genuine issues were to be encountered following the implementation of the LCN option, the basis of calculating and levying the TNUoS generation tariff could be reassessed in due course. Indeed in the longer run we would anticipate some consideration of the merits of moving towards "G=0" charging, as per the wider European transmission charging ambition.

Yours sincerely,

(submitted electronically)

Paul Mott

EDF Energy



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31 March, 2009

Dear Craig,

GB-ECM 13 – For the treatment of the residual generation tariff in the calculation of Transmission Network Use of System (TNUoS) tariffs

Thank you for the opportunity to comment on the above consultation document. This response is made on behalf of E.ON UK plc.

We do not have any further comments to make over and above those made in our response of 4 December to the pre-consultation document. We therefore, on balance continue to support the charging of the residual generation tariff on the basis of a generator's Local Capacity Nomination (LCN).

Yours sincerely

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Trading Arrangements

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31st March 2009

Dear Craig,

Consultation Document GB ECM-13: For the treatment of the residual generation tariff in the calculation of TNUoS tariffs

International Power (IPR) is responding to your consultation on behalf of First Hydro Company, Saltend Cogeneration Company Ltd, Rugeley Power Ltd, Deeside Power Development Company Ltd and Indian Queens Power Ltd.

The additional analysis offered in the consultation is interesting and we note NG's support for charging the residual generation tariff in the calculation of TNUoS based on LCN. However, the analysis offered in the consultation does not change our opinion as recorded in our response to the pre-consultation: IPR would prefer either the Commoditisation or a modified version of the Daily Peak Generation approach based on a daily 12 hour period (07:00-19:00). Therefore, the answer below is substantially the same as offered a few months ago with an expanded argument for widening the period over which to calculate the Daily Peak Generation.

Commoditisation

Levying the residual element of TNUoS on the basis of the utilisation of the system is a useful development of the charging methodology. In the coming years increasing levels of low load factor plant will connect to the transmission system and parts of the thermal fleet will significantly change their running regimes in response to environmental legislation; given these factors, commoditisation may be a more appropriate way in which to levy the residual element of TNUoS. There is likely to be an increase in the effective sharing of capacity and, in view of this, commoditisation can be considered

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to be more cost reflective. Further, it should reduce the barriers to entry for low load factor plant and thereby facilitate competition.

Local Capacity Nomination

IPR would prefer either the Commoditisation or a modified version of the Daily Peak Generation approach based on a daily 12 hour period (07:00-19:00).

Daily Peak Generation

This option brings many of the benefits of commoditisation whilst maintaining the link with recovering costs on a peak basis; for this reason this suggestion presents a useful compromise. The peak period identified in the proposal (16:00 – 19:00), although representing the peak during winter months, does not fit with the peak at other times of the year (summer). Therefore, it seems more appropriate to utilise a longer fixed duration period which captures the times of the highest levels of generation throughout the year without becoming too administratively complex. We suggest that this could be based on the period weekdays 07:00 to 19:00 which are actively traded as ‘peaks’ in the energy market.

Determining the monthly residual generation charge

Calculating the charge on the basis of initial metering data seems the simplest way of determining an accurate charge. The BSUoS process offers a good framework. The alternatives to basing the calculation on metering (either a user forecast or historic load factor) offer neither greater accuracy nor greater simplicity in determining the charge; therefore, we do not agree with National Grid’s view that generation forecasts are the most appropriate method. The changing structure of the industry (with increasing amount of low load factor plant) means that forecasting generation patterns will become increasingly difficult. A BSUoS-type process offers a more accurate and a more long term solution.

Further points

- It is appropriate that users of short term products should be liable for an element of the residual element of the TNUoS generation tariff.
- It is important to retain some element of location signals. We believe that the current DCLF ICRP transport model should be reviewed as there are areas where we believe the model delivers suboptimal results.

We hope that these comments are useful.

Yours sincerely,

Andy Rimmer

Trading Analyst

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From: david.m.ward@magnoxnorthsites.com
Sent: 31 March 2009 11:05
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Subject: Response to GB ECM-13

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Craig Maloney
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By email

Craig

Response to Consultation GB ECM-13
"Treatment of the residual generation tariff in the calculation of Transmission
Network Use of System (TNUoS) Tariffs

This email is a response on behalf of the Nuclear Decommissioning Authority (NDA) to the charging consultation GB ECM-13. The NDA is the owner of the former Magnox, UKAEA and BNFL sites, which currently include two directly connected large power stations and one embedded large power station, which would be affected by the proposals in the consultation. Magnox North Ltd operates two of those power stations for the NDA.

We agree with National Grids' initial view that Users of both long and short-term transmission access products should be liable for the full residual element of the TNUoS generation tariff. We also agree that it remains appropriate to levy the locational element of the TNUoS tariff on a capacity basis, for the reasons stated in the consultation document.

The two other ways to levy this element of the tariff that are described in the document are not appropriate. Basing the charge on megawatt-hours ("commoditisation") is contrary to all past practice for TNUoS charging. National Grid has stated repeatedly since 1990, that the bulk of transmission costs are driven by peak power flows and capacity requirements, and we do not see that this can have changed. Hence it does not make sense to base charges on usage instead of capacity. To do so would not be cost-reflective.

The alternative proposal to base charges on the average generation during the hours of peak demand each day ("daily peak generation") is also not sensible. It clearly would create a perverse incentive on generation to reduce output at times of peak demand, so threatening security of supply for customers, and driving up generation prices at peak times.

These comments are not confidential.

Regards

David Ward

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----- End of message

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31st March 2008

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Consultation Document GB ECM-13 For the treatment of the residual generation tariff in the calculation of Transmission Network Use of System (TNUoS) tariffs

Dear Craig,

Thank you for the opportunity to comment on the consultation document "For the treatment of the residual generation tariff in the calculation of Transmission Network Use of System (TNUoS) tariffs" (GB ECM-13). This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Innogy.

We support the development of charging arrangements that allow the costs of using the transmission system to be reflected appropriately onto parties that cause them. With respect to the proposals for residual charging as we noted in our previous submission on the pre consultation document, we support the creation of a specific cost reflective non locational charge which is separate from the locational element and which may be recovered on a different basis to the current TEC-based charge.

We continue to believe that a commodity charge (£/MWh) most appropriately reflects the costs of using the non locational elements of the transmission system.

We remain concerned about the potential for year on year changes in the residual charge that may arise from factors such as the over/under recovery mechanism. We believe that further work is required on this issue, particularly in association with any changes to the long term access regime (under CAP165 or CAP166).

We do not support a charge based on the capacity of the local connections (or local capacity nomination) since we do not believe that the local capacity reflects the actual wider usage of the non locational elements of the transmission system and therefore will not result in a cost reflective charge.

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We do not support the use of a daily peak generation charge since this may enable certain users to avoid the charge and therefore payment for the wider non locational elements of the system. In this case the charge may be considered a cross subsidy between those users that are using the system in the relevant charging period and those that do not. However all users require the non locational elements of the transmission system in order to use the system and should be charged accordingly.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

By email

Bill Reed,
Market Development Manager

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27 March 2009

Dear Craig

Consultation document GB ECM-13

For the treatment of the residual generation tariff in the calculation of the Transmission Network Use of System (TNUoS) tariffs

Of the options presented in this consultation document, Scottish and Southern Energy's (SSE) preference is for recovery of the residual element of the TNUoS generation tariff through a uniform commodity charge levied on metered generation output (£/MWh) for every settlement period throughout the charging year. We support a charging process similar to that currently used to calculate Balancing Services Use of System (BSUoS) charges, with monthly charges levied in arrears and final reconciliation by 30 June in the following charging year.

SSE believe this approach, when compared to the current approach and the alternatives presented in this consultation document, would better achieve the facilitation of effective competition in the generation of electricity and would better achieve charges that reflect the costs of the GB transmission system. In particular, we believe that this approach would be simple, transparent and reflective of the treatment of intermittent generation in network investment decisions.

Investment in the GB transmission system: capacity vs commodity

We note National Grid's comment on page 39 of this consultation that, "in assessing which of the options presents the most cost-reflective solution ... the argument essentially boils down to whether the costs of the transmission system have been, and continue to be incurred entirely on a capacity basis to meet winter peak demand, or whether the transmission system is increasingly becoming a network with higher levels of plant capacity margin". We agree with National Grid's conclusion that "the use of total winter peak capacity booked as a proxy for transmission investment may be coming less valid". The subsequent publication of modification proposal GB ECM-18 (Locational BSUoS) must add further support to this conclusion.

It is not the case that for every megawatt of Transmission Entry Capacity (TEC) there is an equivalent megawatt of transmission network capacity for all scenarios of generation output and demand consumption. Transmission investment planning decisions, and the deterministic criteria set out in the GB Security and Quality of Supply Standard (SQSS), are based on credible generation, demand and system scenarios. These scenarios recognise that not all generators are the same and, in particular, that different generators will operate at different times. If, for example, all of the proposed wind generators seeking access to the GB transmission system were, instead, thermal generators then system studies would identify a requirement for significantly greater investment in the main interconnected transmission system for the thermal generators than has been identified to accommodate the wind generators.

Cost-reflective charges should, like transmission system planning does, take account of the characteristics of different types of generators. In our opinion, a uniform commodity charge levied on metered generation output (£/MWh) would best achieve this objective.

I hope these comments are helpful. If you would like to discuss this issue further then please give me a call.

Yours sincerely,

Aileen McLeod
Regulation Analyst



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31 March 2009

Dear Craig,

Response to the Consultation Document
GB ECM-13 Treatment of the residual generation tariff in the calculation of Transmission
Use of System (TNUoS) charges

Thank you for the opportunity to respond to this Consultation Document. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

ScottishPower supports the recovery of the residual element of the generation TNUoS tariff on a commoditised basis over the whole year and believes that this best reflects utilisation of the transmission system by users. Indeed, ScottishPower would like to see commoditisation extended to cover the full recovery of generation TNUoS revenue including the 13% currently recovered through the "Wider locational" element (as proposed in GB ECM-17).

The appropriateness of a capacity or utilisation based charge for calculating the residual element of the TNUoS generation tariff, for either all or part of the residual revenue.

ScottishPower does not support either of the two alternatives to commoditisation which have been considered.

ScottishPower believes that users of short-term transmission access products should be liable for an element of the residual element of the generation TNUoS tariff. As the Maximum Allowed Revenue (MAR) represents the sunk costs of investment plus the costs of operating the transmission system, ScottishPower supports its full recovery on the basis of utilisation of the transmission system. This would correct the anomaly between the SQSS, where an allowance is made for the lower load factors in determining the level of infrastructure investment required for intermittent generation, and the DCLF ICRP model which makes no allowance for low load factor plant.

It is inappropriate to charge potential users of short-term access products on the basis of Local Capacity Nomination because, although these users have expressed an interest in using short-term products, it may be that the charging methodologies introduced for products such as Overrun and SO Release will make these products uneconomic to users. A charge based on the user's LCN could therefore result in a user paying an element of the residual charge having failed to secure any transmission access at all.

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Charging on the basis of actual generation over the peak period achieves some of the cost reflectivity of charging on a utilisation basis but is not as cost reflective as full commoditisation. We are also concerned that charging on the basis of peak generation could result in a perverse incentive not to run at times of maximum demand thus adversely affecting security of supply.

Consideration of a more appropriate period on which a daily peak generation charge should be based, with justification.

Please see comments above on inappropriateness of daily peak generation as the basis for residual TNUoS charging.

The analysis presented in Section 5 of this consultation.

ScottishPower notes the analysis provided in Section 5 of the Consultation and supports the high level conclusion (Figure 10) that the sum recovered from the locational element of the TNUoS charge under the current Charging Methodology exceeds the costs which can be attributed to locational assets. However, the presentation of the recovery of “Wider” locational charges of ~£50m in Figure 8 fails to convey the hugely excessive re-distributional effect of the locational element of TNUoS which results in the transfer of ~£125m from generators in positive zones to generators in negative zones.

It should be noted that the “volatility” in commoditised residual tariffs recorded in Table 3 arises from the volatile and unpredictable nature of the locational element of TNUoS and that the underlying elements, MAR and market demand are inherently predictable and stable .

The options presented for the calculation of monthly charges.

Monthly charges under options 1 and 3 should be calculated, in arrears, on the basis of actual metered generation on a basis similar to the BSUoS methodology with reconciliation taking place by 30th June following the end of the financial year. Use of forecast data to produce estimated bills would be administratively complex and require further investment in systems for the submission and validation of forecast data. Security for the residual element of TNUoS could be calculated on a similar basis to that used for BSUoS liabilities.

Commoditised charges would have the further advantage of stability and transparency and the reconciliation amount arising from changes in either the MAR or the annual total demand would be expected to be minimal.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

James Anderson
Commercial and Regulation Manager



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26 March 2009

Dear Craig

GB ECM – 13 For the treatment of the residual generation tariff in the calculation of Transmission Network Use of System (TNUoS) tariffs

Welsh Power welcomes the opportunity to comment on this charging consultation document. Our views have not altered significantly since we responded to the December pre-consultation document. However, we are extremely disappointed that NGC has chosen not to address the issue of the treatment of any over/under recovery. We do not believe that leaving this key issue until a later date will allow the industry to fully understand the pricing implications for their own businesses, notably under a CAP166 world.

We continue to believe that all generators using the system should be liable to pay some of the residual charge to cover the “lumpy” nature of TO investment. Given the amount of investment that we believe is necessary in the near future, this element of charges may well rise. It is therefore vital that the charges are equitable across plants using the wider system and the principle of user pays should be maintained.

We prefer the charges to carry a greater locational element as we believe that much of the lumpy investment will relate to connecting or reinforcing specific parts of the network. The generators in Cornwall should not be picking up the costs from reinforcement in North Wales, as they will simply not use that network. If Ofgem, or the government, wish to move to postage charging, which we can see an argument for, then that is fine, but while cost reflectivity remains a principle of TO charges then the residual element should aim to capture some of the local nature of even the largest investments.

The **local capacity nomination** is attractive in correctly charging for the system design, currently based on connection size. However, we note CAP168 for example, may alter the capacity and other modifications propose firm and interruptible rights, which may or may not count as “capacity” for charging calculations. It also seems inequitable to charge a generator with local rights, but no wider access. We do not believe that the capacity nomination approach should be pursued as it may put “deeper” reinforcement costs on generators with only local or even interruptible capacity.

Commoditisation does have the benefit for charging for use of the system, but we remain concerned that the costs that NGC are trying to recover are not related to utilisation, but to CEC and the SQSS. We also believe that some locational element should be included as there are clearly different costs from system use, as highlighted at the Cheviot boundary. We also agree that the charges are potentially rewarding plant who uses the system less though the investment may have been triggered by their connection. However, it does maintain the principle of user pays which we support.

We are concerned that in negative zones the locational element of TNUoS encourages generation while the commodity element does not, so there may be a relative price issue that needs to be considered in setting the charges. Could the commodity rates also be locational to offset these incentives?

At the present time, of the three options, we prefer commoditisation, but believe it would need to be reviewed to ensure that certain classes of generators are not paying significantly greater proportion of the costs that may arise from a different class of generators.

Daily peak generation seems to create the incentive not to generate at the time that the system will most need generation. We are also concerned that the focus on the peak period may undercharge some generators, such as wind, whose load factor is relatively low and generation may not occur in the relevant period, but whose connection has trigger reinforcement. The opposite is also true that the plant that runs at peak, for system security, which may pay more than their actual connection costs. We therefore do not believe that the charges will adhere to the principle of user pays due to the charging time element involved. NGC has also not provided analysis to show that the time zones used are directly related to the time that constraints arise and we agree that summer peaks may differ from winter and therefore the charging window may need to alter.

On balance Welsh Power believes that commoditisation is the best of the options in the paper.

Please do not hesitate to get in touch if you wish to discuss any of the points raised.

Yours sincerely

A handwritten signature in black ink that reads "Rebecca Williams". The signature is written in a cursive style with a large, stylized initial 'R'.

Rebecca Williams
Head of Trading