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Dear Mathew

Pre-Consultation Document GB ECM-10

TNUoS Generation Zoning Criteria

I set out below the views of Scottish and Southern Energy (SSE) in respect of the issues raised in National Grid's pre-consultation document regarding generation zoning and, in particular, the definition of exceptional circumstances and the $\pm£1.00/kW$ zoning criteria.

Definition of exceptional circumstances

Exceptional circumstances are, by their very nature, difficult to predict. As a consequence, we would not support a change to the charging methodology that introduced a prescriptive definition of what is, or is not, an exceptional circumstance. We would, however, support a change to the charging methodology that resulted in a clearer statement of the criteria that National Grid would apply to assess whether or not a circumstance was exceptional and, further, the process it would follow (including engagement with the industry) in making this assessment.

In our view, in making such an assessment of whether or not a circumstance was exceptional, National Grid should, first and foremost, be minded of the need for stability in the charging environment and the materiality of the event. Hence, while it may be appropriate to introduce a new zone for a new generator (example 1 in the pre-consultation document), it may be less appropriate to introduce new zones that affect existing generators by virtue of being only pence outwith the zoning criteria (as examples 2 and 3 in the pre-consultation document). In this regard, we believe there may

be merit in establishing a within price control restriction on re-zoning; i.e. so long as the spread between generator tariffs within a zone does not exceed a pre-determined amount, then re-zoning is not required. In setting such a pre-determined amount, our comments below about the $\pm£1.00/kW$ zoning criteria would also apply.

We would welcome some further analysis of this option from National Grid (using, for example, SYS data for the duration of the remaining price control and considering the impact of different threshold values).

The $\pm£1.00/kW$ zoning criteria

The key issues in relation to the zoning criteria are: what value should be used to maximise stability, predictability and cost-reflectivity of the zones; and how should this value be treated going forward?

As the pre-consultation document notes, the current fixed $\pm£1.00/kW$ zoning criteria is resulting in an increasing number of generation zones in response to changes to, in particular, the expansion constant. We do not support what appears to be an inexorable slippage towards nodal charging and hence we believe that, in common with the expansion constant, the $\pm£1.00/kW$ zoning criteria should be reviewed at the start of every price control period and should be inflated annually in line with RPI within a price control period.

The selection of $\pm£1.00/kW$ as the zoning criteria was entirely arbitrary. However, this criteria has been devalued to the extent that in excess of 30 generation zones are forecast for 2012-13. This, in our opinion, undermines the stability of charges and has opened the question of whether or not there should be re-zoning within a price control. As a consequence, and accepting that a new arbitrary value is not required, we would support annual inflation in line with RPI (as described above) and hence a resetting of the current zoning criteria to $\pm£1.50/kW$.

Again, we would welcome some further analysis of this option from National Grid considering, for example, whether a mid price control re-zoning would be required if the zoning criteria was reset.

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

Yours sincerely,

Malcolm J Burns
Regulation Manager