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21 May 2004

Stuart Easterbrook,
Transmission Charging Manager,
National Grid Company plc
NGC House (Floor C3)
Warwick Technology Park,
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Re: Response to GB Transmission Charging: Initial Methodologies Conclusion

Dear Stuart,

Airtricity is an integrated renewable energy company with interests in renewable generation development in UK and Ireland, including a number of projects at various stages of the construction/development process in Scotland. Airtricity also exports power from Scotland across the Moyle interconnector.

Airtricity's objective in entering the UK market is to develop renewable generation to actively compete in the UK energy market. We contend that transmission charging proposals are a fundamental part of the wider BETTA implementation programme for Scottish generators. We appreciate that a charging methodology needs to be agreed in the short-term in order to allow NGC to continue to meet its licence objectives, however bearing in mind the number of BETTA-related issues which at this moment in time are still outstanding, it is imperative that the rules which are put in place now do not distort investment decisions and jeopardise the potential for renewable generation development in Scotland.

We understand that NGC has considered a range of options and implications in arriving at the scenarios outlined in the consultation document and we welcome the opportunity to comment on the alternative proposals.

Policy Framework

We consider that any charging methodology must be consistent with the overall energy policy framework. Under BETTA, it is envisaged that new generation in Scotland will be able to exploit the advantages of a wider marketplace. As a capacity based charge, TNUoS charges do not equally impact across all types of generation and impose more significant cost considerations on lower load factor plant such as wind farms. It is incumbent upon NGC to set charges at a level which signal locational costs/benefits to all market players whilst at the same time maintaining the perceived advantages of the new market arrangements. In particular, we note the licencing obligations outlined in the consultation document which states that NGC must ensure that charges are:

non-discriminatory, and do not have the effect of restricting preventing or distorting competition in generation, supply, transmission or distribution

Proposed methodology

Cost-reflectivity

Cost-reflective locational charging is appropriate to signal the costs of transmission usage across the system and incentivise generators to respond to market signals in so far as this is possible. Nonetheless, the charging methodology should not set locational transmission charges at such penal rates that they negate all other sensible signals for proposed generation development.

The decision on the most appropriate charging methodology for GB must consider the differences in network structure in Scotland compared to E&W, along with the expected network developments in Scotland. The best solution is a comprehensive review of the existing methodology which derives from a GB starting point, as opposed to an E&W starting point and considers the role of Transmission Charging within the overall energy policy framework. Such a review will require Ofgem direction, in the meantime a transmission charging solution must consider the requirements for a stable and predictable set of charges upon which participants can base commercial decisions, as well as cost-reflectivity requirements.

Scenarios A & B

The earlier Addendum document illustrates the range of charges possible under the multi-voltage expansion factor methodology. The possibility of such fluctuations in charges will render it extremely difficult for smaller generators to secure adequate levels of long-term project financing, particularly in those areas which are most affected by the extremes of the transmission charging ranges. As the consultation document points out, E&W charges have not experienced the potential levels of instability as suggested by participants – however, the wider range of charges and the different network composition under BETTA means that it is premature to say at this stage whether concerns over potential instability are over-stated.

We note that the consultation document mentions the primary objectives that charges are cost-reflective as far as reasonably practical and facilitate competition. We consider that the methodology employed in arriving at Scenario A best fulfils **both** of these objectives. NGC refers to:

“considerable uncertainty surrounding the development of networks and the voltage levels at which that development may take place”

Levying transmission charges on this basis creates an unnecessary and unhedgeable risk for participants. We support the use of a single expansion constant, as per the Scenario A methodology, in order to minimise the impact of this uncertainty on generators. The greater charging instability under Scenario B will create much riskier market environments in certain locations and this can only discourage competition - Scenario A represents a more balanced approach.

On the Demand-Side, we agree with NGT that negative demand charges may lead to perverse market behaviour in relation to energy efficiency issues. Scenario A is again preferable as negative demand charges are avoided under this methodology.

With regard to the treatment of Moyle, we refer to the Seven Year Statement issued by SONI and the Generation Adequacy Report issued by Eirgrid (as Moyle is used to transfer energy from Scotland to

Northern Ireland and the Republic of Ireland systems). These Statements suggest that Moyle will continue to be a net exporter of energy from Scotland to Northern Ireland and we agree with the NGT's approach that Moyle is modelled as exporting at full capacity for current purposes.

Longer-term review

We welcome NGC's comments that it intends to review long-term charging and look forward to the opportunity to contribute to this process in the future. Under the existing charging structure however, we favour Scenario A as we believe this methodology to be most in line with NGT objectives and the overall market framework at this point in time.

Yours sincerely,

Audrey Fogarty
Trading Development Manager