Clarifications in respect of our STTEC paper to the CISG, in light of issues subsequently raised

Unfortunately, I will be unable to make it to the next CISG. Therefore, I thought it might be helpful to send some comments in for consideration. Particularly, following on from British Energy's paper on our proposed options for dealing with the STTEC charging problem, I thought that we should perhaps clarify on a number of issues raised.

Our paper was intended to provoke debate and we are pleased that it appears to have done so. Maybe surprisingly to some, we agree with many of the points BE made in their paper, although sometimes for different reasons. We have broken our clarification into 4 general issues.

1: The example given in the E.ON paper was unrealistic because:

a) A generator would coincide commissioning and the reinforcement work to maximise return on capital.
b) The generator would only acquire STTEC if it was profitable to do so.
c) It would not take TEC in the final month as it would not make financial sense.

We do not agree with the point made in a) above. It is not clear why a generator would be able to maximise return on capital by coinciding reinforcement with commissioning of the plant. If it was able to commission before the reinforcement work was complete, but still obtain access to the system, then it would presumably do so if other market conditions were appropriate. Also, a generator may wish to return a station from mothball, which would not entail the same commissioning decision.

We do agree with points b) and c), but in raising them BE misses the point we were making. This was given as an example to illustrate the highest the generator could pay, as was clearly stated in the paper. In reality, it is likely that it would pay less than this as the product may not be available for all periods. However, the example worked to illustrate how over-priced the STTEC product is compared with the TEC product for longer term use.

We agree that the generator would only acquire STTEC if it was profitable to do so. However, setting the charge at too high a level makes generating using a STTEC unprofitable when it should not be. Additionally, whilst it is not the role of the transmission methodology to artificially increase certain generator's profits, it is just as important to ensure that charges are cost reflective, so as not to artificially suppress profitability.

We agree that it would not make commercial sense to purchase the full TEC in the last month as in the example. However, that is also a problem with the charging methodology. The date of provision of a station's TEC should simply reflect the earliest time that it can be made available, not to avoid odd effects caused by the transmission charging methodology. It would seem strange to expect everyone to commission plant in April simply to fit in with the TNUoS charging methodology.

2: STTEC was never intended to address the issue we raised:

The first point to note is that once the STTEC product was available it was able to be acquired for any purpose a generator wished. That is, once implemented the words of the amendment proposal are redundant and it is what is stated in the CUSC which is important. The CUSC is silent as to the purposes to which STTEC can be put.

However, leaving this point aside, it is not clear why the paragraph quoted undermines the case we raised. To remind readers we have reproduced the paragraph below (our bold):

"*Circumstances may arise where it is considered beneficial, both commercially for the respective parties and to enhance system security, to generate in excess of evergreen (long term) TEC. However, at present generators can only generate in excess of their TEC under emergency instruction.* ***Users can apply to increase their TEC at any time in the year but if the application is granted the additional TEC will confer long term rights and would attract annual TNUoS charges****. In order to lower any potential barrier to entry for short term use of capacity and enhance system security it is proposed to introduce a short-term firm finite access product such that generators, subject to NGT authorisation, are able to generate above their existing evergreen TEC on a short-term basis. The product should enable Users to generate for sub-annual periods without necessarily incurring annual TNUoS charges and therefore may provide an incentive for otherwise unavailable plant to generate.* ***The product could also provide a means to utilise capacity which may otherwise have been unavailable under the existing access arrangements whilst using existing transmission assets****."*

Firstly, this paragraph simply states that potentially commercial generating opportunities may be prevented by the fact that TEC attracts a full TNUoS charge. Our view is that a charge of up to three and a half times the TNUoS rate similarly prevents commercial opportunities being realised. Secondly, the final sentence in the paragraph describes exactly the situation to which we believe STTEC could be applied. Therefore, we believe our case is directly relevant.

3: A cap may be an acceptable option

We are pleased that BE agrees that some form of capping may be appropriate. However, we believe that the proposal to cap charges at effectively 126% of the TNUoS charge, by capping at a level corresponding to the cost of the fourth slot of six week STTEC, represents an excessive premium. Alternatively, the cost of the fifth slot of four week STTEC could be chosen (or the fourth slot of five week STTEC) which would arrive at a cost of 105% of TEC.

However, this form of cap still doesn't get over the issue of effectively paying twice for the capacity should the full TEC be delivered towards the end of the year. As we mentioned above, there is no reason why people should aim for TEC applications to always be made for April to avoid this effect.

4: The most cost reflective option

BE raises an interesting point in that it believes that the most cost reflective option would be to charge 90 percent of TNUoS for the first period of STTEC and to thereafter charge each additional day at 1/365 of 10 percent of TNUoS. This is in order to reflect NGC's estimate that 90 percent of the cost of the system is incurred in order to meet the peak usage.

This is a proposition which could be developed into an alternative charging proposal whereby STTEC could be calculated as follows:

Cost of first slot of STTEC in year = ((0.9) + (0.1 x n/365)) x TNUoS

Cost of slots thereafter = (0.1 x n/365) x TNUoS

Where n = the number of days in the relevant slot of STTEC.

Again, this method, if applied solely to STTEC purchases, would run the risk of double counting if the final TEC was delivered part way through the year. Therefore, some form of cap would have to operate to avoid this.

Comparisons of options

Figure 1 below attempts to update the graphs from the previous paper to show the different options.

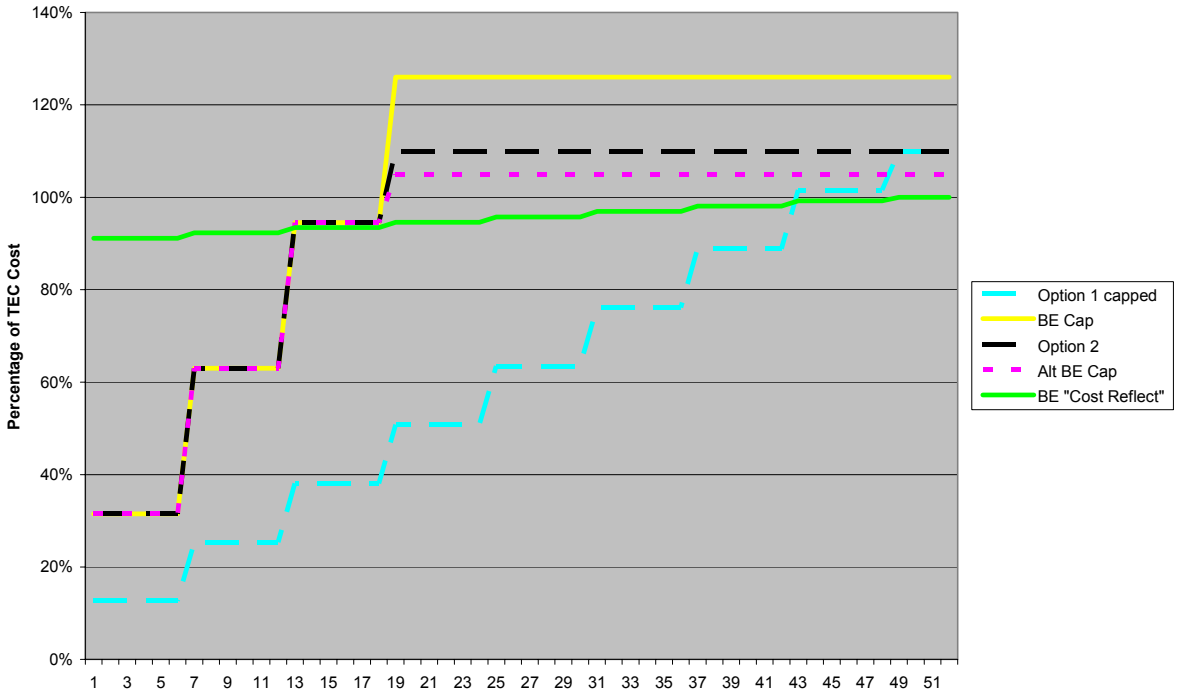

Figure 1 – Comparison of options for STTEC charging

Options 1 and 2 were outlined in our previous paper. Option 1 is the TNUoS charge divided by 52 to calculate the weekly STTEC charge, with a premium of 10 percent added as a further incentive to use TEC as the preferred access product. Option 2 is the option to cap total charges at 110 percent of the relevant TNUoS charge. The "BE Cap" line shows setting the cap at 126% as per BE's paper. The "Alt BE Cap" is the level of cap, equivalent to 105% of TNUoS, which would pertain if it was set in relation to the 4 or 5 week STTEC products, rather than the 6 week product. The "BE Cost Reflect" line illustrates the level of charge which would exist if the above additional option, in line with BE's suggested cost reflective STTEC charge, were implemented.

Conclusion

We would argue that all options provide a fairer charge than the present regime. However, we believe that the BE Cap represents too high a premium to pay for an inferior product. All of the options apart from Option 2 would be additive to TEC, if they were applied purely to STTEC. Therefore, whichever option is chosen, we believe that the form of the charging methodology change should be of a cap on the total amount of charges paid for access, to avoid effectively double counting for capacity provided during the same year using both STTEC and TEC products.

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