Our Ref
Your Ref

Richard Lavender
National Grid Company plc
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Date 21 January 2005

Dear Richard

GB Transmission Charging: Final Methodologies Consultation

EDF Energy is pleased to have the opportunity to respond to this consultation on the GB Transmission Charging final methodology proposals. We do not have any objection to our response being published on the National Grid website.

We have provided comments on the main elements of the revised GB Transmission Charging Methodology as an attachment to this letter.

In summary, EDF Energy considers that the revised proposals for a GB Transmission Charging Methodology have satisfactorily addressed the concerns raised by the Authority in their December 2004 Decision document. We believe that the revised proposals meet the transmission licence objective of (a) facilitating effective competition in the generation and supply of electricity; and, (b) reflecting the costs incurred by transmission licensees in their transmission businesses.

We hope that you will find these comments useful. If you have any queries please do not hesitate to contact me on 0207 752 2526.

Yours sincerely

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Basis of the revised Charging Methodology

EDF Energy continue to support cost reflective locational transmission charges and agree with Ofgem and NGC that the proposed Option B methodology is more cost reflective than Option A. We therefore support NGC's proposed use of Option B as the basis of the revised GB Charging Methodology.

We also agree with Ofgem's view that cost reflective charges are an important element of facilitating competition and that to artificially constrain the cost reflectivity of transmission charges could distort competition.

Generation developers are faced with a multitude of factors to take into account in assessing the economics of any project. Many of these factors will be locational, such as the availability of fuel or energy resource, land prices and development potential, and the cost of transporting fuels and energy. If the cost associated with any one of these factors is defined on a non-cost reflective basis then this will lead to less efficient outcomes. In the case of transmission charging, if the charges did not reasonably reflect the cost of transporting energy from the generator to end customers then there is a risk that inefficient siting decisions will be made by generation developers leading to higher transmission costs overall.

G/D Split and Negative Demand Charges

EDF Energy recognises NGC's concern that negative demand charges would provide an inappropriate signal to half-hourly metered customer demand in Northern Scotland. However, we were concerned at the impact of the previously proposed shift in the G/D split on England and Wales demand tariffs. The approach adopted in the revised proposals has a significantly lower impact on demand transmission users. Whilst the revised approach does introduce a small cross subsidy, on balance we believe that this represents a reasonable interim solution.

In the longer term we would like to see some clarification from Ofgem on whether, and over what timescales, GB transmission charges might be required to move towards 100% Demand charges in order to harmonise transmission tariff structure with the rest of Europe. If this is to be the case then a move from the current G:D split to a 0:100 split would address both the harmonisation requirement and the problem of negative demand charges. Given the potential short term impact of such a move, particularly on end customers, we believe that a phased transition to 100% demand tariffs may provide a more predictable and lower impact solution.

Transmission Owner Specific Expansion Factors

Given the different backgrounds of the three GB transmission networks we can see some merit in considering separately the weighting of expansion factors to reflect the likely development options in each area. This would seem to be a reasonable compromise between the most cost reflective approach of considering each individual circuit and the simplified approach of applying a national average weighting. We therefore support the proposal.

275kV Expansion factors

We note NGC's analysis of the number of 275kV circuits that are of 400kV construction. We agree that this fact should be taken into account in the relevant expansion factors for 275kV circuits.

Security Factor

We note the information provided to the industry through the DCLF working group and the TCMF on the basis for using a locational security factor. This has reinforced our view that the locational security factor is the most cost reflective approach to the inclusion of the costs of providing a secure transmission system in the transmission tariffs.

Spare Capacity

We note the additional information provided by NGC in support of its approach to the handling of spare capacity within the network and agree with NGC's conclusion that the introduction of an additional element to reflect spare capacity would reduce the cost reflectivity of the model.

Transmission Licence Objectives

We believe that the revised GB Charging Methodology proposed by NGC does meet the Transmission Licence objectives.

With regard to facilitating competition, we consider that the proposed methodology provides a transparent, stable and predictable approach to setting transmission charges. In particular we do not believe that the proposed methodology is any less stable than previous alternative options with different cost parameters.

With regard to cost reflectivity, we consider that the proposed methodology more accurately reflects the true costs of the transmission system than the current England and Wales methodology and also when compared with the previous proposed options. This greater cost reflectivity is largely delivered by the detail that has been incorporated into the development of expansion costs and factors.

However, it is important to note that investment in the transmission system is for the long term and consequently the benefits in terms of competition and cost reflectivity are also long term. Frequent changes to the charging methodologies, as have happened in recent years, can result in significant instability for individual participants which can considerably diminish the effect of any intended cost signals provided by the methodology. We believe that in order to actually achieve the intent of the transmission licence objectives, the proposed methodology will need to be in place for a sustained period of years.