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Progress report on GB Charging condition 2
Review of incremental cost of capacity within the GB Charging
Methodology

Dear Patrick,

Thank you for the opportunity to comment on the review of the incremental cost of capacity with the GB Charging Methodology detailed in your progress report dated April 2006.

RWE npower supports the development of economically efficient locational signals across the whole of the GB transmission network. (we also support the extension of these ideas into the distribution networks.) In the context of the significant expansion of renewable generation, predictable and cost-reflective tariffs must be developed to provide appropriate locational signals for both directly connected and embedded generation, with symmetrical signals for demand. These will ensure that investment in infrastructure assets is efficiently incurred, and that the costs that users impose on the networks are recovered from those that cause them to be incurred. At a time when a large quantity of potential generation is deciding where to locate, it is more significant than ever to have correct locational signals.

RWE npower believes that satisfying the licence objective on cost-reflectivity is a prerequisite to achieving the licence objective on facilitating competition, and that a cost-reflective use of system charging methodology should contain the following key features:

- A representative DCLF model
- Forward looking expansion constant reflective of the full incremental cost of delivering power transfers
- Multiple-voltage expansion factors representative of the cost incurred by technology choice.

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We would like to make some specific comments on the various sub-sections of the progress report: Transparency, Forward-looking v Historic costs and Cost reflectivity of the expansion constant, Thermal ratings and Spare capacity.

Transparency

The process of calculating the expansion factors and the other cost information used to derive the tariffs offers a compromise between NGET's commercially confidential information and full cost transparency.

Forward-Looking V Historic Costs and Cost Reflectivity of the EC

We believe that it is appropriate to use a cost reflective forward looking set of costs to derive tariffs so that efficient transmission system can be developed and maintained by NGET. The current method of calculating the EC results in a value of circa £10/MWkm. When this is contrasted with the historic costs of £22/MWkm (if the historic costs all the NGET transmission line and cables are allocated on the lengths of those assets), it appears that the forward-looking costs are under-representing the true costs of expanding the system. We believe that the costs of recently announced projects to upgrade the transfer capability of the system, e.g. the upgrade planned for the Scotland-England border, be assessed against the £10/MWkm to give an indication on the appropriate level of the EC.

The inclusion of quadrature boosters, SVCs, MSCs and other power transmission equipment into the calculation is noted in NGET's analysis. We agree with NGET's conclusions that a more comprehensive modelling approach would be required to accurately allocate the costs of these assets. Reactive power compensating equipment is located largely in areas of high power import and is directly related to the level of demand or throughput in that area. The correct allocation of the costs associated with this category of investment should be locationally driven. We note NGET's concern on the correctness of recovering the cost of providing these services in the charging mechanism, and look forward to a proposal of assessing the cost of providing reactive services and the allocation of such costs.

Thermal Ratings and Spare Capacity

We note the findings that albeit the effects of modelling on MVA basis are small it is still calculable. It is appropriate to consider the effects of a circuit MVA and MW capability from an AC or DC loadflow respectively. We welcome NGET's view to monitor the developments in other charging arena where AC loadflow is considered.

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

Yours sincerely

Andrew Manning
RWEpower