



Mr Stuart Easterbrook
Transmission Charging Development Manager
Commercial
National Grid Company Plc
NGT House (Floor C3)
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Friday, 21 January 2005

Dear Stuart,

GB Transmission Charging: Use of System Charging Methodology Revised Proposals Consultation

RWE npower welcomes the opportunity to comment on the issues contained within the Revised Proposals Consultation for GB transmission charging published on the 20 December 2004.

In Summary

RWE npower supports the revised proposals as an initial GB charging methodology. However, there are various features of the methodology that fail to reflect fully the nature of the true costs of expanding the network. NGC should ensure that these are thoroughly and promptly debated after BETTA Go-Live at the TCMF and Charging Issues Standing Groups.

Negative Demand Tariffs

RWE npower does not support collaring to eliminate negative demand tariffs over the long term as it is a distortion to the locational signals produced by the model. If it is considered the negative demand tariffs compromise system security with the existing charging base, NGC should be obliged to find an alternative enduring solution within a fixed time frame following BETTA Go-Live. The method of adjusting the G/D split, put forward in the previous consultation, is one such alternative. This method can be shown to have many positive benefits as it produces a tariff structure which would undoubtedly produce efficient transmission system development. Parties who can respond to these signals, i.e. new generation, would be left with a clear indication of the cost structures they can expect in future years. Ultimately this would lead to lower energy prices

for consumers as the optimum value is extracted between the relative costs of energy production and transport costs at varying locations.

If it were considered necessary to eliminate negative demand charges, varying the recovery of the non-locational element of the tariffs via a phased reduction of the G/D split would produce a coherent and predictable evolution of charges without compromising the cost-reflectivity of the methodology.

Expansion Factors

The revised proposals include a change to employ TO specific expansion factors. This is intended to reflect better the likely development options for voltages below 400kV. RWE npower shares NGC's concerns that circuit specific expansion factors would not be consistent with the other averaging in the model. Moreover, this aspect of the revised proposal could be considered to be discriminatory, since regional expansion factors have not been proposed in England and Wales. Whilst very significant locational costs of expanding a network exist in any practical system, these costs are not driven by their ownership. No analysis has been provided to illustrate the extent to which this arbitrary distinction by TO area affects the final results.

The issue of expansion factors is strongly linked with the concept of using distance as a proxy for measuring cost of expansion. Necessarily when a circuit is uprated to a higher voltage, there are many other modifications required, including those mentioned by NGC, e.g. transformers at both ends of the circuit, and others not mentioned such as the provisions for replacing GSP transformers, busbar and the other infrastructure at the sub-stations. This is a defect in the current England and Wales methodology. If these aspects of the revised proposals are accepted for reasons of expediency, NGC should be obliged specifically to review these issues in 2005/06.

BSUoS methodology

National Grid has not proposed any significant changes to the BSUoS methodology, and the Authority has indicated that it approves of this element of the revised Use of System Charging proposals. Nevertheless, OFGEM stated in their consultation and Impact Assessment on the initial GB charging proposals that, arguably, an alternative approach could better reflect costs. OFGEM recognises that there may be practical difficulties associated with attributing balancing costs on a locational basis robustly. We agree that there are difficulties in addressing these issues in the current timescales for BETTA 2005/06 charges, but it is not impossible to attribute definite balancing actions with specific operating states of the power system.

Moreover, NGC's latest projected balancing costs for 2005/06 indicate an increase of over 300% in constraint costs under BETTA. This puts into sharp focus the issue of how to incentivise parties to locate at nodes on the network that will reduce the upward pressure in balancing costs. In the BETTA context and the emergence of a larger proportion of generation that cannot be controlled precisely, we suggest that this must be an important issue for discussion at the Charging Issues Standing Group.

NGC's revised methodology includes a proposal to levy BSUoS charges on power stations that are classed as license exempt large power stations in Scotland. Whilst the "Clarification note" 20th January 05 was helpful, the fact remains that Ofgem has not concluded the EELPS consultation and neither have we seen any form of a BELLA agreement. The charging methodology should state that for power stations subject to a BELLA the BSUoS charge would continue to be levied on the supplier (in accordance with the last sentence of the clarification letter).

Please do not hesitate to contact me should you wish to discuss any matter raised in this response.

Yours sincerely

Shona Watt

Transmission Charging Manager
npower