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20<sup>th</sup> January, 2005

Dear Richard,

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

E.ON UK is broadly supportive of NGC's revised proposals for GB Transmission Charging. However, we have concerns that the proposals for TO specific expansion factors have been made on an arbitrary basis and would create a distortion in the methodology.

#### **Changing the Proportions of Revenue Recovered**

We appreciate that following Ofgem's rejection of Scenario B that NGC had to review the split of revenue recovery between demand and generation from the 90:10 share originally proposed. In light of the limited time available to develop a methodology for the beginning of BETTA, we believe that it was a sensible decision to revert to the original 73:27 split. Adopting a different share would risk rejection of the proposal when it is presented to Ofgem and potentially cause a delay to BETTA implementation.

We also agree with NGC's proposal to collar the demand tariff at zero in the north of Scotland to avoid negative charges, and to spread the associated over recovery across all other demand zones on a non locational basis. This has the benefit of maintaining the relative locational signals for the majority of zones. The only zone for which the signal would be diluted is the north of Scotland. However, in light of the distortion in the

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transmission charging which has already been proposed for in this zone through the Hydro Benefit, small generator and renewables subsidies, this further element would prove insignificant. Indeed, the limited effect it did have would be beneficial as it would mitigate the distortion caused by the above subsidies.

### **The Expansion Constant and TO Specific Expansion Factors**

We welcome NGC's further analysis which provides further clarity that using an expansion based on new investment in 400kV lines is the appropriate way forward. However, we do not agree with the proposal to introduce TO specific expansion factors. We can appreciate that NGC would wish to change the methodology in light of discovering that proportion of assets at 275kV were likely to be replaced with 400kV lines, or were already constructed to the same standards as 400kV lines. However, the proposal to reflect this effect by TO, using TO specific expansion factors, is arbitrary and distorts the methodology.

The aim of BETTA is to introduce consistent trading and transmission arrangements across the whole of GB. What this proposal does is to produce separate and distinct charging mechanisms for England and Wales, and the authorised areas of Scottish Power Transmission and Scottish Hydro Electric Transmission respectively. These three areas represent very different proportions of total generation capacity and demand. Additionally, two of these correspond exactly with the historic "home" markets of the incumbent companies in the areas BETTA is intended to open to greater competition.

Moreover, one of the stated purposes of having a single GB system operator is to ensure that users of the transmission system contracted with a party who is free of generation and supply interests. By splitting the methodology into elements which are specific to each TO it is now possible for the TOs to adopt policies, or provide information to NGC, which will directly and specifically affect charges in the areas in which their associated generation and/or demand may be dominant. It must be emphasised that we are not implying that this is what has happened in this instance. However, the existence of such a mechanism cuts across one of the main tenets of BETTA and has to be of concern to those participants who are seeking to compete on an equal footing. It could also be argued that the approach is inconsistent with the EU obligation on transmission companies not to discriminate between users of their system, on the basis that incumbents will use the assets in these zones more than new entrants.

We believe that NGC has three options open to it to reflect this issue in the methodology.

1. Maintain a GB wide expansion factor. Up until this point NGC has been content to have expansion factors which are GB wide and specific only to the particular voltage concerned. NGC has chosen not to reflect any differences in assets at a particular location and has instead represented the average cost for GB. This could be done in this instance also. Indeed, it is not clear as to why this particular issue has merited different treatment this time around.
2. Create circuit specific expansion factors. NGC could reflect the particular characteristics of each individual circuit and have a specific factor for each. This

would avoid distorting the methodology on the basis of authorised area. However, it would presumably be more complicated given the far higher number of factors required. Additionally, other characteristics which were specific to the circuits concerned would presumably also have to be taken into account, increasing the complexity further.

3. Aggregate circuits into equal size zones. In the present proposal the zones defined for the purposes of the expansion factors represent roughly 86%, 9% and 5% of the GB total of installed generation capacity respectively. If NGC wishes to split the country into zones then it should aim to have a larger number which are more equitable in size. However, without objective criteria for setting the zones these could also potentially be seen as being set in an arbitrary manner also.

On balance, we believe that it would best to adopt the first option above. It doesn't result in an arbitrary distortion of the methodology and avoids a charge which is overly complex to calculate. This in turn aids transparency to market participants.

I hope the above comments prove helpful. Should you wish to discuss this further, please contact me on the above number.

Yours sincerely

Paul Jones  
Trading Arrangements