British Nuclear Group

Intelligent nuclear clean-up

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Dear Mr Halldearn

PROPOSED TRANSMISSION CHARGING METHODOLOGIES OF THE GB SYSTEM OPERATOR: AN OFGEM CONSULTATION AND IMPACT ASSESSMENT

I refer to the above consultation document published by Ofgem dated October 2004. Magnox Electric has responded to previous NGC consultations on GB charging methodologies to be introduced under BETTA. I understand that all such previous consultation responses will be considered by Ofgem as part of the present consultation exercise. The response to this consultation from Magnox Electric is given below.

Magnox Electric welcomes the opportunity to respond to the additional analysis presented by Ofgem as part of the consultation document, and the further information published by NGC at the request of Ofgem to which the consultation document refers. Our comments on this are as follows:

1. Security Factor

   We have argued previously for the use of a secured DC load flow model as the basis for deriving TNUoS charges within the GB market, as it provides for the most cost reflective charges, and would be reasonably practicable for NGC to implement. We therefore believe that the adoption of a secured DC load flow model would most closely accord with the obligations set out in NGCs transmission licence. NGC has argued that the use of a DC load flow model containing a single security factor would provide greater transparency, and thus might be judged to facilitate competition, and is consistent with the wishes of market participants.

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We remain unconvinced by NGCs arguments, in that the claims of greater transparency do not stand closer scrutiny. Market participants do not have access to a number of key parameters that would be required in order to forecast future TNUoS tariffs on the basis of the model supplied. Therefore, a real benefit of greater cost reflectivity has been sacrificed for no corresponding gain in other areas.

We note the additional information on security factor published by NGC. We would comment on this as follows:

- NGC have stated that the value of the security factor will vary from year to year, but have stated an intention that the security factor will be set to a single value which would be reviewed at the end of a price control period. We cannot understand why the security factor should not be recalculated annually and revised values used to determine annual TNUoS charges for the following year. This would seem to result in more cost-reflective charges, and be reasonably practicable.
- The nature of the information published by NGC does not enable users to come to an independent judgement of whether a disaggregated approach to the security factor would result in more cost-reflective charging. Users are unable to confirm for themselves the assertion by NGC that "we have found no evidence to suggest that there are defined regional variations that can be grouped within certain criteria". NGC then go on to state that calculating separate security factor for Scottish nodes gives rise to a higher security factor in that area. NGC then appear to deem the difference to be insignificant on the basis that the regional variation in Scotland is smaller than year-to-year variations in security factor for the network as a whole. We cannot see that arbitrarily deciding that security factors should apply for the duration of a price control period forms a sound basis for then dismissing the introduction of disaggregated security factors, where NGC has itself conceded that regional differences, albeit small, exist.

2. Impact on Scottish generation

We agree with the analysis given by Ofgem with regard to the impact on Scottish generation of the proposed GB charging methodologies. In our view, this confirms that the increase in transmission related charges paid by Scottish generators under BETTA is modest, and can neither be considered disproportionate nor discriminatory. Insofar as the location of generation in Scotland gives rise to additional costs of operating the transmission system, this should be reflected in a cost-reflective charging mechanism. This will result in the correct market signals in respect of operation of current plant, decisions concerning location of new generating plant, and retirement of existing capacity.

3. Environmental Impact Assessment

We agree with the observations in paragraphs 2.8 to 2.12 to the effect that NGC's proposals might be expected to give rise to environmental benefits in terms of reduced transmission losses and the visual intrusion associated with new transmission lines, although the effect is small. With regard to renewable generation, it has been recognised in the Renewables Obligation that current

market prices are insufficient to give rise to levels of renewable generation which the government would wish to see, and that further incentives to construction of renewable generation are required. We would not consider it appropriate to introduce changes to the transmission charging arrangements that apply to all forms of generation to provide additional incentive to renewables generation by limiting the impact of transmission charges in Scotland.

Yours faithfully

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Regulation and Market Access Manager