

**Our Ref**  
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David Haldearn  
Director, BETTA  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

**Date** 3 October 2003

Dear David,

### **Transmission Charging and the GB Wholesale Electricity Market – Part I**

EDF Energy welcomes the opportunity to outline its views on the Ofgem/DTI consultation on changes to the licences to implement GB transmission charging under BETTA. We consider the transmission charging and contractual framework to be at the core of transmission and trading arrangements in the electricity market and are fully committed to being involved in the development of British Electricity Trading and Transmission Arrangements.

In summary, EDF Energy:

- supports the proposed charging framework, based on the current arrangements for England & Wales and under the responsibility of the single GB System Operator;
- believes that appropriate and consistent locational charging is fundamental to the efficient, economic and competitive operation and development of the transmission network;
- would like to see further details on the timetable and process for the development of GB charging methodologies; and
- believes that Transmission System Users should be fully involved in the process of developing the GB charging methodologies. Any changes from the current England and Wales arrangements should be fully justified in dialogue with users.

I attach a note giving our more detailed comments. If you have any queries please do not hesitate to contact either Rupert Judson on 020 7752 2526 or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

**Denis Linford**  
**Head of Regulation**

Attachment

**Detailed Comments:**

EDF Energy supports the development of the British Electricity Trading and Transmission Arrangements, which we believe will bring significant improvements in competition to the generation and supply markets in Scotland and will create a level playing field across Great Britain, with long term benefits for market participants and consumers.

We believe that long-term stability is a fundamental requirement for any competitive and economically efficient market. We support the objectives of a single set of trading and transmission arrangements for the whole of Great Britain and we believe that locational charges and signals have an important role in such a market to incentivise efficient siting of generation and demand and to accurately reflect the costs of the transmission system.

EDF Energy agrees that the GB SO should be the only transmission licensee obliged to develop charging methodologies. Using a model that is based on the arrangements currently used in the England and Wales market provides a safe and solid base with which the majority of the market is familiar and will prove to be the simplest and least disruptive option available. Any further refinements that may be required in the future will be easier to implement by having just the single licensee who is responsible for the development of charging methodologies. This is in line with EDF Energy's view on avoiding over-complication or any potential complex interactions that could arise by having more than one licensee able to develop charging methodologies.

EDF Energy supports the proposal to use the supplementary Standard Conditions C7, C7A, C7B, C7C, C7D and C7E, based on those used in the England and Wales market, as the means of regulating the GB SO. These help in the simple transition to a GB wide market whilst also allowing some flexibility for any possible future introduction of competition into some areas of transmission. The Standard Conditions ensure that system charges are non-discriminatory, cost reflective, stable and transparent and through these means an economic, efficient and competitive market can evolve.

EDF Energy notes that NGT, after industry meetings and consultations, recently released modifications that change the basis on which connection charges are levied. Given the fundamental nature of this change, we would be interested in Ofgem's views on the applicability of these NGT proposals for BETTA and believe that if these proposals were to be implemented a further industry consultation would be required to consider the suitability of these changes for GB.

EDF Energy believes that the contractual and licence arrangements between the GB SO and the TOs must ensure that the GB transmission system is operated smoothly so that competition and efficiency are not adversely affected. There arises the possibility of the GB SO manipulating the charging structure to discriminate between TOs, which would impact on the efficient

and economic running of the system. We believe that, since any potential changes to the methodology or structure are subjected to industry wide fora and consultations, any potential abuse should be highlighted, thus enabling Ofgem to reject any changes that are believed to be discriminatory. This would make it difficult for the GB SO to abuse its position by proposing inappropriate changes and, in any case, it would not be in the best interests of the GB SO to undertake any such manipulation.

### **Implementing a GB Charging Regime**

Charging methodologies do potentially have a significant impact but these are only touched upon in this consultation. EDF Energy agrees that, as a broad framework, what is proposed in this consultation is a good starting point. We understand that this has to be done alongside the GB SO and hope that there will be ample time and opportunity for the industry to participate in this process. We believe that it is in the interests of all market participants that the charging methodologies that are implemented under BETTA allow for the system to be managed and run in an efficient and competitive manner. The GB SO must have sufficient time to develop the charging methodologies to avoid producing an unsatisfactory product through undue haste. However, we believe that the use of the England and Wales framework as the starting point ensures that only the minimum of change should be required to apply the charging arrangements on a GB wide basis.

EDF Energy supports the broad principles that are currently adopted across the three transmission areas, that all transmission connected generators pay transmission use of system charges and that some classes of distribution-connected generation are exempt from transmission use of system charges. We believe that the position of the smaller generators connected to the 132kV system in Scotland is one of the key issues for BETTA and that there is considerable work to be done on it. Whether it is necessary either to standardise the definition of Transmission and Distribution across GB or to recognise the fundamental regional differences within the Grid Code and other industry codes, the 132kV issue needs to be addressed and we look forward to the further Ofgem/DTI consultation on this issue.

EDF Energy believes that appropriate and consistent locational charging is fundamental to the efficient, economic and competitive operation and development of the transmission network. We support cost-reflective GB charging methodologies that incorporate charging elements that vary with location and we believe that locational charges and signals have an important role in such a market to incentivise efficient siting of generation and demand. However, it is essential that the overall level of locational signals is appropriate and that any locational charging arrangements are applied consistently to all transmission system users on a non-discriminatory basis across Great Britain.

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**Date** 3 October 2003

Dear David

### **Transmission Charging and the GB Wholesale Electricity Market – Part II**

EDF Energy welcomes the opportunity to outline its views on the DTI's consultation focusing on transmission charging in the context of the Government's policy objectives for growth in renewables.

We are strongly committed to contributing to the development of a low carbon economy and in particular to the growth of renewable generation. To this end, EDF Energy has been a significant purchaser of ROCs and we are developing various renewable projects, including offshore wind farms.

However, we do not believe that adjusting transmission charges in the manner suggested by the consultation document can be demonstrated to be efficient and well targeted, or consistent either with other policy objectives or with minimising costs. In particular:

- The purpose of locational signals is to enable decisions on plant siting to take account of the costs of transmission, as well as all the other costs which depend on location. Without such signals, overall costs of renewable generation are likely to rise as a consequence of siting decisions failing to take adequate account of transmission costs.
- It would be impossible to ensure that the benefit of the reduced transmission costs went only to the projects which needed this benefit in order to be viable.
- Ofgem and Government policies favour market solutions and avoiding market distortion. The proposed rebate would give an additional benefit to renewable projects in Northern Scotland which could prejudice the viability of other projects elsewhere whose true costs are lower.

- Transmission rebates could also amount to indirect discrimination between suppliers with significant Scottish presence and others.

More detailed comments are attached. If you have any queries please do not hesitate to contact either Rupert Judson on 020 7752 2526 or myself

Yours sincerely

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**Denis Linford**  
**Head of Regulation**

Attachment

## **Detailed Comments**

EDF Energy does not support the proposal for a transmission charge rebate to certain renewable generators over and above current “embedded benefits”. Giving rebates is not consistent with a market-based approach, and would mean that other transmission users were subsidising a particular class of Renewables. This is not in line with the EU objective of having a cost reflective and non-discriminatory charging methodology and will lead to incorrect locational decisions being taken.

EDF Energy believes that appropriate and consistent locational charging will assist the efficient, economic and competitive operation and development of the transmission network. These would be compromised by giving rebates to Renewables in Northern Scotland, and would therefore have a detrimental effect on the cost-effectiveness of the system.

We note that Article 4.2 of Regulation 1228/2003 refers to transmission charges providing “locational signals”. EDF Energy believes that locational signals must be provided by the charging structure to promote efficient investment in the transmission system and give an indication of where new generation should ideally be located. EDF Energy supports the extension of the England and Wales transmission charging methodology to Great Britain.

*We agree with DTI’s view that Article 7.6 of the Renewables Directive does not require Member States to adjust transmission charges for renewables in peripheral regions beyond the level that is cost reflective.*

EDF Energy believes that locational transmission charges would not be a barrier to new Renewables and would therefore not discriminate against electricity from renewable energy sources. Transmission charging signals currently encourage Renewables to be built in the South of Great Britain, close to the major centres of demand and where there is most benefit to the electricity transmission system. If these locational signals are removed or diluted then growth in Renewables will be contrary to the requirements of the transmission system. This will lead to an inefficient and uneconomic outcome.

Under NGT’s proposed charging arrangements for shallow connection charging, Renewables would pay reduced connection and use of system charges. This would reduce the incentives on Renewables to optimise their connection costs. On a GB-wide basis, renewable generators based in Scotland would get further benefits under these proposals. EDF Energy has stated in previous consultation responses to NGT’s current charging review that it would like to see wider consideration of the proposed changes to the charging framework in a GB-context before any changes are finalised. EDF Energy supports stable charges and it is highly likely that any changes brought about through this charging review for England and Wales will require further change when it is extended over Great Britain.

Because EDF Energy does not believe that there is a case for a transmission subsidy system, we have not addressed at this stage questions relating to the detailed design of such a system. We doubt that the drawbacks of the proposal can be remedied by detailed design changes. We would however observe that, were DTI minded to offer any subsidy, it should be limited to Renewables that are eligible for the Renewables Obligation, as a wider definition would greatly increase the market distortions and lead to considerable windfall gains for the owners of existing non-eligible plant.

EDF Energy/October 2003