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Dear David

Transmission charging and the GB Wholesale Electricity Market

Thank you for the opportunity to comment on your recent consultation document. One of the cornerstones of the proposals is that the current England and Wales charging arrangements are adopted GB wide. Whilst we are supportive in principle, we have a number of concerns with respect to the current governance arrangements and believe that there is now an opportunity to make changes in this crucial area, for GB-wide implementation.

These modifications, including changes to licence conditions, would be designed to ensure that the benefits of a market in the supply and generation of electricity are not jeopardized whilst recognizing the need of the GB system to have a secure and reliable infrastructure in place.

Part I – Changes to Transmission Licences to implement GB transmission charging under BETTA

Modifications to the Charging Methodology

NGC is currently the only party that can propose changes to the charging methodologies. We believe that this does not allow the charging framework to develop on an effective and efficient basis, particularly where such changes can have significant commercial impact on individual connected parties.

This can and has led to situations where NGC's discretion is used to 'bundle' modification together (effectively ruling out alternative proposals) or not to take issues forward despite significant industry support. A more accessible and open modifications process would avoid these problems and create a more balanced and constructive environment in which to debate charging issues.

We would propose that in order to correct this, the CUSC panel be given wider powers to require NGC to take forward modifications to the charging methodology that are proposed by the industry. The panel as an independent body would have the power to reject any modification that it felt was inappropriate, but if a modification was endorsed by the panel NGC would be required to follow the modification proposal in the normal way. We believe that this would allow more modifications to be brought forward which better meet the relevant objectives.

Consultation on Charging Modifications

NGC is required to consult on formal modifications, but in the run up to the preparation of modifications NGC has no explicit obligation to consult and there is no requirement on them to do so. We believe that the informal Transmission Charging Methodology Forum should be placed on a formal footing via a licence obligation for the SO and the chairmanship of the TCMF should not rest with the SO. We believe that this would ensure that the views of all users are better represented prior to consultation on modifications.

Objectives for Modifications

There are a number of competing licence requirements on NGC that any modification to the charging methodologies need to meet. These are, primarily:

C7A

- 5a facilitate competition in the generation and supply of electricity
- 5b charges which reflect costs incurred in the licensee's business
- 5c takes account of developments in the licensee's transmission business

C7C

- 1 The charges shall not discriminate between classes of persons

There are trade-offs to be made when constructing charging modifications in meeting these criteria and the judgment as to how this balance is reached currently rests with NGC (with Ofgem having a power of veto).

We believe that the current charging review using the ICRP methodology is focused primarily on 5 b and c above at the expense of 5a. This has led to a range of charges that will potentially be highly locational and although (apparently) justified by 5c, the effect on the competition in the generation and the supply of electricity will potentially be detrimental to the market. It will reinforce the significant cost advantage that southern generation (renewable or thermal) has over and above their more northerly competitors. This will lead to a less economic solution and higher cost for customers.

We believe that C7A should be modified to ensure that objective 5a is the prime objective with 5b and 5c given a subsidiary role. We further believe that there should be a cap set on the differential of generation and demand charges that can be applied. This should be set in the context of the GB wide system to ensure that outlying areas are not subject to undue discrimination, providing some protection against volatility in charges as a result of annual changes to NGC's modelling assumptions. This cap

should be set as a modification to C7C which will then inform any future changes to the TNUoS modeling process. Consideration should be given to requiring NGC to perform a cost benefit analysis for modifications to ensure that the benefits outweigh the costs.

Specific questions in the consultation document

Q1

The proposals that the GB system operator should be the only transmission licensee obliged to develop charging methodologies

No, we disagree. We believe that the CUSC panel should be allowed to propose modifications for the SO to take forward. We think that the Transmission Methodology Charging Forum (TCMF) should be placed on a formal footing with an independent chair. Ofgem's role would be the same as it currently is, i.e. with a power of veto.

Q2

The proposal that regulation of the GB system operator in this regard should be based on supplementary Standard Conditions C7.. of the electricity transmission license.

It should be based on C7A modified to clarify that the prime objective is facilitating competition in the generation and supply of electricity with the other two objectives being subsidiary to it. We also think that a maximum level of zonal charging differentials should be clarified in licence condition C7C.

The SO should have a requirement to perform a cost benefit analysis on any proposal.

Q3

How the above obligations need to be refined to operate effectively in the light of necessary interactions between the SO and TO roles

It would seem sensible to refine the current objectives in order to recognize the potential for discrimination against non-affiliated TOs, i.e. placing obligations on the SO to apply equitable and consistent charging.

Q4

Whether any substantive changes are required to these license obligations to reflect the interactions between the SO and TO.

No – see comments to Q3

Q5

Views invited on the suggested process and timetable for the initial GB system operator to develop and consult upon its proposed charging methodologies

The timetable proposed is sensible, however the process (replicating the current arrangements) is inadequate. (see comments above)

Q6

The proposals that it is appropriate for GB users to pay for the GB transmission system, subject to the envisaged requirement for charges to be cost-reflective and non-discriminatory

This seems to be a sensible way forward as long as the maximum differential is set, otherwise the situation could occur where one areas pays for another geographical areas charges. Also, see our comments above on the competing objectives in terms of cost-reflectivity and facilitation of competition.

Q7

Any different steps that should be taken to prescribe the pattern of cost recovery

See answer to Q6

Q8

The proposal that the broad principles that are currently adopted across the three transmission areas in respect of liability for transmission use of system charges is maintained

We think that one charging regime should be applied over all areas, and that the broad principles currently applied should be maintained.

Part 2 - DTI consultation on transmission charging in the context of the Government's policy objectives for growth in renewables.

We recognize the important contribution that renewables can make to the achievement of the Government's climate change policies but do not accept that a special transmission charging regime should be introduced for one geographic group of renewables generators at the expense of all other generators. The proposal we have made above to set a maximum zonal price differential should in any case greatly limit any concern about discrimination or disadvantage in peripheral areas.

Renewable generation already receives substantial support through the Renewables Obligation (RO), UK capital grants and EU (Objective 1) grants some of which differentiate by technology or by location. If 'peripheral' renewables are still perceived to be at a disadvantage then these instruments should be used to provide the necessary incentives to invest. However before any such step is taken it should be subject to detailed review. It may well be that any disadvantages of peripheral location are offset by better renewable resource in those areas.

Should you require any further clarification on this or other related areas please contact Simon Lord or Kevin Dibble.

Yours sincerely

Simon Lord