

Response to Ofgem/DTI Consultation on Transmission Charging and the GB Wholesale Electricity Market August 2003 – “Part 1 An Ofgem/DTI Consultation on changes to transmission licences to implement GB transmission charging under BETTA”

1.0 Introduction

We welcome the opportunity to comment on this consultation document and the proposal that the GB system operator produces the charging methodologies to apply across GB.

For both ease and clarity, this response follows the same structure as the consultation addressing each relevant section.

We respond to this consultation in our capacity as the existing transmission licensee for England and Wales and also in anticipation of our appointment in the role of GB system operator in light of the Ministerial statement on the appointment of a GB system operator under BETTA referred to in paragraph 3.7 of the consultation.

2.0 Proposed framework for charging to support a competitive GB wholesale market

Framework

We agree that only applying a licence obligation on the GB system operator will ensure that the party developing the charging methodologies is independent of generation and supply interests. With a single party responsible for maintaining and developing the methodologies the transmission charges will be set on a consistent basis across GB.

Proposed changes to licence conditions

A model based on NGC's current licence obligations

We support the proposal that the governance of the GB methodologies should be based on our supplementary Standard Conditions C7, C7A, C7B, C7C, C7D and C7E of the electricity transmission licence. However, we have the following points to raise specific to the relevant objectives contained within these conditions currently applicable in England and Wales, and the issues associated with their application across GB.

The relevant objectives require that the transmission charges calculated in accordance with the methodology, should reflect, as far as reasonably practicable, the costs incurred by the licensee in its transmission business. On a GB basis it will

be necessary to ensure that such an objective allows for GB transmission charges to reflect the appropriate costs incurred by each transmission licensee.

A further relevant objective within the Standard Conditions states that the methodology should facilitate competition in the carrying out of works for connection to the licensee's transmission system. We believe that consideration should be given to whether such an objective on the GB system operator is appropriate under the proposed BETTA SO-TO framework. Furthermore, it is not necessarily clear if it is possible to effectively facilitate competition in this area within a charging methodology, alongside an obligation to charge in a cost reflective manner. Efficient and economic delivery of such services may be better achieved by placing obligations on the TO activity, rather than through the charging methodology.

One relevant objective in the existing Standard Conditions states that the methodology should, as far as reasonably practicable, properly take account of developments in the licensee's transmission business. We believe it will be appropriate to revise this objective to capture developments in each of the licensee's transmission businesses, and not just the GB system operator's. Furthermore in establishing a GB methodology the GBSO should take into account the systems and processes in the TO businesses.

Other potential refinements

In order for the GB system operator to put in place, maintain and develop a GB charging methodology, information will be required from the TO's. We believe it will be necessary to capture this requirement on the TOs via the SO-TO Code (STC).

Consistent treatment of internal and external TO-related costs

We support the view that any type of cost incurred by a licensee should be charged out on a consistent basis. An example of this is system operator control centre costs which are recovered by BSUoS charges and the SO regulated incentives in England and Wales, but which are within the TO price control in Scotland. We believe it would be appropriate to separate such Scottish costs so they could also be recovered through GB BSUoS rather than GB TNUoS or connection charges.

Non-discrimination and TOs

We also support the view that the GB system operator should not set charges in a manner that favours itself over non-affiliated TO's. However, we do not believe it is necessary to create any additional licence conditions as the existing Standard Condition C7C prevents discrimination between "any persons or class or classes of persons." It should be noted that it is not possible to discriminate in favour of any TO without at the same time discriminating between new and existing users of the transmission system.

Other Issues

Prior to the implementation of the GB charging methodology, different connection/infrastructure boundaries exist for each of the TO's. We believe that consideration should be given to establishing the GB connection/infrastructure

boundary in the licence and not in the methodology statement. This would ensure that both the connection and use of system methodology obligations are defined in the licence alongside the definition of the assets and services that are relevant to the methodologies.

3.0 Implementing a GB charging regime

Process and Timetable

We note the timetable provided for the Ofgem/DTI consultations on licence obligations and the proposal for the consultations on the charging methodologies. Our understanding was that there was to be two consultations, however we note there is an additional third consultation following Royal Assent. Whilst we recognise that it may be necessary, we are concerned about the additional project risks associated with introducing a third consultation on the charging methodologies. We believe the timetable is workable but there are a significant number of issues and dependencies that must be resolved.

We believe it will be necessary to progress the GB charging methodologies as far as possible before Royal Assent to allow appropriate lead times for the development of processes and systems. System changes will be required by each of the Transmission Owners to extract the information necessary for transmission charging and an interface needs to be developed with the GBSO's charging systems. Timescales dictate that these systems and processes would need to be developed on the basis of the proposals put forward in the March 2004 consultation. If there is any change to the data requirements from TOs or significant change to the charging rules between the March proposals and the final proposals in October 2004, then it may not be possible to calculate GB transmission charges for April 2005, given that final charges need to be published two months before they come into effect.

Within the proposed timetable, the initial system operator is due to publish the initial proposals for the charging methodologies in March 2004, which are proposed to include indicative estimates of connection charges. It will be necessary for the initial system operator to know what agreements are in place with which parties ahead of publication.

As a more general point, in order to provide a basis for consultation on charging principles by the GBSO, it would be appropriate for Ofgem/DTI to have concluded their consultation on transmission charging and the GB wholesale electricity market Parts 1 & 2 prior to any consultation by the GB system operator. It would also make the consultation more constructive to have completed any revisions to charging methodologies in England and Wales prior to the GB consultation.

Geographic recovery of costs

We agree with the initial Ofgem/DTI proposals for changing transmission licences under BETTA in that sub-regional demarcation of costs for the purpose of setting charges should be removed. We support the principle that the GB system operator should recover the total costs of the GB transmission system from GB users. This principle is consistent with the BETTA reforms and the creation of a single GB wholesale market.

Who pays transmission use of system charges

We support the proposal that anyone directly connected to the transmission system should be liable for transmission charges. With regards generation not directly connected we note that in practice, 1MW of distributed connected generation has the same impact on the transmission system as 1MW of directly connected generation. Furthermore, if there is sufficient embedded generation connected at a Grid Supply Point to result in that GSP exporting power onto the transmission system either continuously or regularly, then the impact on the transmission system becomes visible. Therefore, there is a case that all generators should pay use of system charges. However, the thresholds currently defined for the size of embedded generators that are liable for transmission charges are set more for practical purposes, for example the threshold in England and Wales is currently primarily driven by the level at which a generator is required to hold a generation licence.

Most of the smaller scale distribution connected generation that does not directly participate in central settlement systems is currently treated as negative demand from a charging perspective. The amount of distribution connected generation is increasing and consideration will need to be given to whether these arrangements will be appropriate on a GB basis in the future. Alternative charging structures may become necessary if monitoring and review of these levels establishes that this is appropriate.