Head of Transmission Charging
Ofgem
70 West Regent Street
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26th January 2007

Dear Grant,

Charging arrangements associated with GB SQSS design variations based on customer requests

EDF Energy is pleased to have the opportunity to respond to Ofgem's impact assessment. The company believes it is sensible to offer non-compliant connections to Users, but has reservations as to the proposed change to National Grid's charging methodology.

National Grid has proposed that a User who opts for a single circuit connection (no redundancy) should be rewarded with year-on-year discounts to TNUoS charges. EDF Energy believes this is an adequate, pragmatic process for rewarding the User for opting for the single circuit and allows Users to evaluate the risk/cost of outage against the savings made.

However, the company is disappointed that other Users (such as demand) are being denied the savings that would be accrued through the non-compliant connection. EDF Energy believes Ofgem has yet to consider this point, and that expediting implementation to meet the 2007/08 charging year is too rapid given the wider considerations.

EDF Energy's reasoning is explained by answers to your questions:

Chapter 3: questions Outline of NGET's modification proposal

Question 1: Do respondents have any views on the appropriateness and size of the discounts described?

- EDF Energy believes the discount is easily high enough to encourage generators to opt for a non-compliant connection. The reason for this is that National Grid's proposal aims to pass on all the savings only to the generator and does not envisage sharing any of the saving with other Users.

Question 2: Do respondents wish to present any additional analysis that they consider would be relevant to assessing the proposal?

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- Ofgem should assess the likelihood (and cost) of an unplanned outage on a non-compliant transmission circuit and compare this with the discount being provided through the charging methodology, to determine if the discount need be so great. We provide some of our own analysis as part of our reply to question 3, below.

Question 3: Do respondents feel that the discounts available reflect the types and sizes of connections that have been built as well as those currently within the GB queue?

- National Grid has designed the TNUoS charge discount so that only two types of generation will elect for the single circuit SQSS design variation.

The design variation discount provides significant discount to connections that are either:

1. Onshore, eligible for a higher substation discount (connected at 33kV or 132kV);
2. Offshore, where the security factor can be significantly reduced.

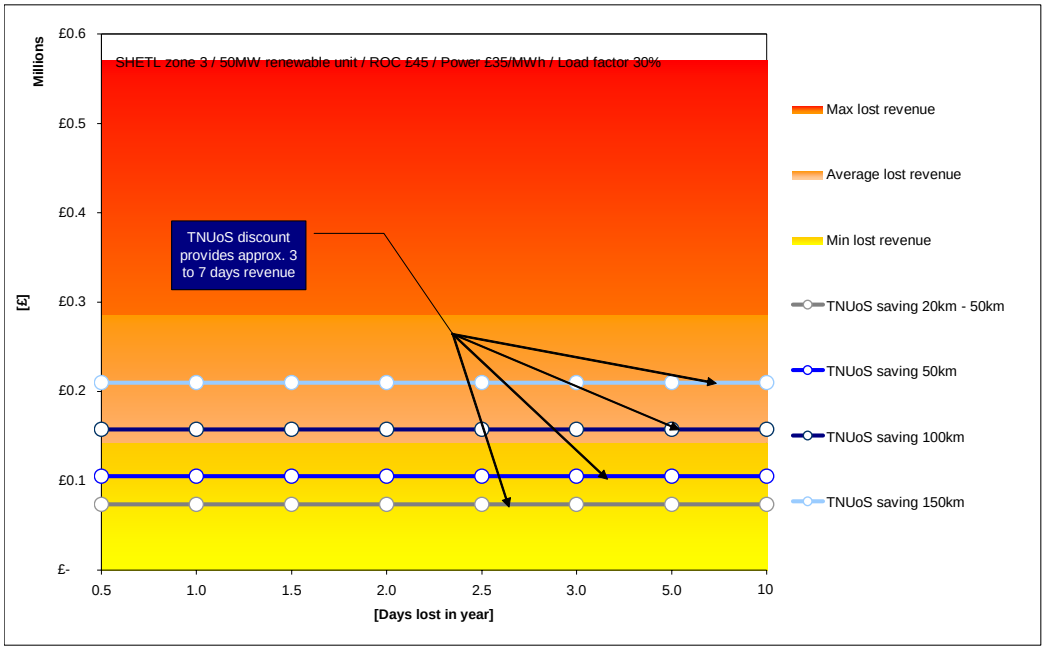
- It is acceptable for the design variations to be targeted at renewables, which will comprise most of the eligible beneficiaries - albeit that it would have been preferable for National Grid to explicitly state this in the consultation. In designing a complex line length and substation discount, National Grid has attempted to provide an economic mechanism for renewables to request design variations without encouraging other potential Users to do so. We believe the substation discount has been designed to offset the lost value to a small renewable generator for the loss of ROCs during outage. We agree with this premise, yet would have preferred to seen this reasoning made explicit in the consultation.

- If we consider an onshore 50MW wind farm, connected in zone 3 (SHETL), the range of discount increases linearly from £73k flat at 20km to £210k at 150km. This pattern is similar in all SHETL managed zones, where the station qualifies for a substation discount at £1.05/kW and is connected on a 132kV line.

- This is shown in figure 1, where three levels of revenue accrued at 15%, 30% and 60% load factor (indicated by the yellow, amber and red shaded areas), are overlaid with lines that indicate the savings in annual TNUoS charges at different km line lengths.

- The combined circuit and substation discount provides approximately 3-7 days of lost transmission access per annum for a ROC accredited wind farm, which we believe is easily enough incentive and risk for a project to accept. If a project qualifies for a £3.12/kW discount then the generator is provided with 6-12 days of lost transmission access. EDF Energy considers that an annual average interruption of this duration may be unlikely.

Figure 1: TNUoS discount compared to the possible revenue lost at line outage.



Question 4: Do respondents consider that there are any aspects of the proposal that have not been fully assessed?

- The residual calculation is unfair to demand Users (and generation Users with compliant connections), who are being denied any of the savings from the non-compliant connection. Ofgem should consider the Residual calculation and its impact on other Users. It does not pass any of the savings onto consumers where a cheaper connection is chosen by a generator connectee. It is unfair that demand (and generation Users with compliant connections) be expected to have the target revenue increased to allow for the discount to be passed onto the non-compliant generator, so that NG does not lose any revenues as a result of having a cheaper regulatory asset base.

The formula that sets this is below:

$TRR_t = R_t + D_{DV} – PVC_t – SG_{t-1}$

- Where TRR_t is the TNUoS recoverable revenue for the year, R_t is the forecast revenue allowed; D_{DV} is the total substation discount, (SG_{t-1} and PVC_t are not relevant in this context).
- This formula means that Demand and other Generation Users do not benefit from any reduction in the regulated asset base of the transmission owners. It has an especially negative impact on Demand Users, who would be expected to pay 73% of the TNUoS charge relating to the surplus cost of all connections, (including 73% of the discount). They would not without adjustments, benefit see any reduction in TNUoS charges as a result of connectees opting for a single-circuit connection.

- A solution to this would be to only pass on 27% of the discount to the generator opting for a non-compliant connection.

Chapter 4 questions: Assessment of other factors

Question 1: Do respondents have any views on the additional analysis set out in this chapter?

- EDF Energy disagrees with point 4.12, “the total costs of transmission should be reduced to the benefit of consumers.” as the residual calculation would not pass on any savings to demand Users.

Question 2: Do respondents wish to present any additional analysis that they consider would be relevant to assessing the proposal?

- No.

Question 3: Do respondents consider that there are any aspects of the proposal that have not been fully assessed?

- No.

Chapter 5 questions: Environmental impact assessment

Question 1: Do respondents consider that we have appropriately outlined the key environmental impacts of the proposal?

- Yes

Question 2: Do respondents consider that there are other environmental impacts that should have been assessed?

- No.

Question 3: Do respondents have any additional analysis in relation to environmental impacts that they wish to present?

- No.

Chapter 6 questions: Process and way forward

Question 1: Do respondents have any views on both the process and timetable that are proposed for taking forward this assessment of the modification proposal?

- EDF Energy believes the introduction of any GBSQSS discount be delayed until 2008/09, after Ofgem has been able to consider the implications of demand and compliant generation Users not benefiting from other Users agreeing to non-compliant connections.

Question 2: Do respondents have any views on the appropriateness of the Authority granting a shorter notice period to allow this modification proposal to be implemented by 1 April 2007 if approved?

- EDF Energy believes this step is unnecessary. Further work needs to be completed to provide certainty to other Users that the discounts are fair.

If you have any questions please feel free to contact David Scott on 0207 752 2524.

Yours sincerely,

Jim Beynon
Head of Policy and Environment
Energy Branch