

Response to OFGEM Consultation: Zonal Transmission Losses -The Authority's "minded to" decisions

National Grid welcomes the opportunity to respond the consultation on Zonal Transmission Losses.

In principle the introduction of any methodology that accurately reflects on to participants the effect that their production or consumption has on the value of transmission losses should be welcomed. Such a methodology would enhance the efficient, economic and co-ordinated operation of the GB transmission system.

We note and welcome the assessment of the environmental benefits associated with this proposal. If such a methodology stimulates a reduction in the overall volume of losses and consequentially leads to a reduction in emissions then this would be beneficial.

We further welcome OFGEMs clarification on of the interaction between the TNUoS charging methodology and Zonal Transmission Losses. The analysis provided in appendix 3 confirms our own view and gives us comfort that there will not be any double accounting of costs between the two charges

As such, the question we have attempted to assess is whether any of the various proposed methodologies allocate the costs of variable losses with sufficient accuracy onto the parties responsible and that these allocations of costs stimulate appropriate changes in market behaviour. Further, that these changes in market behaviour lead to an overall reduction in the volume of losses on the system.

As noted in OFGEMs assessment in section 3 of OFGEMs initial losses consultation, there are a number of complexities and assumptions inherent in all the proposed methodologies. If these assumptions do not accurately identify the origin of these variable losses, then any proposed methodology may lead to an inaccurate reallocation of costs. This could in turn lead to inappropriate commercial windfall gains and losses without the corresponding benefits of changes in market behaviour.

We note from Oxera's cost benefit analysis report the difficulties in producing an accurate ex ante transmission loss factor. A difficulty compounded by the limited number of Transmission System snapshots utilised in the analysis. Given the inherent difficulties in accurately deriving such a loss factor we are unable to offer an opinion as to the benefits of the proposed methodologies relative to the current baseline.

We would further note from the analysis provided that this modification has potentially sizeable consequences for the generation and supply community and a relatively smaller impact on the GBSO and its management of the transmission system. The appropriateness of our position on this modification, which is born out of our uncertainty of its potential consequences, is therefore reinforced by this consideration

Please find below responses to the specific questions in the consultation

Chapter 2

Question 1: Do respondents consider that we have appropriately summarised the key themes of the responses to Ofgem's impact assessment on zonal losses? - Yes

Question 2: Are there any other themes which respondents considered should have been highlighted - No

Chapter 3

Question 1: Do respondents consider that the additional analysis we have provided addresses the concerns expressed by the respondents to the impact assessment regarding analytical gaps in the impact assessment? - Please see response above

Question 2: Do respondents consider that there are any remaining aspects of the modification proposals that require to be addressed analytically? - Please see response above

Question 3: Do respondents have any additional analysis in relation to the impact of the modification proposals that they wish to bring to the attention of the authority? - No

Chapter 4

Question 1: Do respondents consider that the modification proposals have been appropriately assessed against the applicable BSC objectives? – Yes

Question 2: Do respondents consider that there are any aspects of the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives? - No

Chapter 5

Question 1: Do respondents consider that the Authority has appropriately assessed the modification proposals against the applicable objectives when considered collectively? – Yes

Question 2: Do respondents consider that there are any aspects of the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives when considered collectively? - No

Chapter 6

Question 1: Do respondents consider that the Authority has appropriately assessed the modification proposals against its duties? – Yes

Question 2: Do respondents consider that there are any aspects on the modification proposals that have not been adequately assessed in relation to the Authorities duties? - No

Chapter 7

Question 1: Do respondents have any comments on any of the issues set out in this chapter? - No

Chapter 8

Question 1: Do respondents wish to raise any specific issues regarding the Authorities minded to position? – No

Question 2: Do respondents have any views on both the process and timetable that are proposed for the Authority making its final decisions on the modification proposals and for publishing those decisions? – No