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Our Reference:
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Dear Ijaz,

Regulatory Arrangements for East West Cable One Ltd's Two Proposed GB-Irish Electricity Interconnectors

Thank you for the opportunity to respond to this consultation. We have provided answers to the questions posed, and have also raised a number of additional points in relation to Use of System charging arrangements. Whilst we are content that the operation of these two Interconnectors should be carried out under exemption, there are certain aspects of the overall arrangements that we do not believe have been fully considered.

The analysis conducted by K. U. Leuven on behalf of EWC considers that there will be a dominant flow from GB to Ireland. This view is not contradicted in the consultation. On this basis the Interconnectors should be charged as demand nodes for the purposes of National Grid's charging of Use of System. Both locations where the Interconnectors leave GB are in very high demand charging zones, paying up to some £23/kW for Transmission Network Use of System. This raises a number of issues.

Firstly, a generator in Scotland can expect to pay some £20/kW to put its generation onto the system. With an exit charge from the GB system of up to some £23/kW, then in total, the charge for transferring this generation to the entry point of the Interconnectors would be some £43/kW. To supply in Ireland, to this needs to be added an Interconnector charge, plus, in all likelihood, entry and exit charges in Ireland. Even without these additional charges, the £43/kW would translate into an £8/MWh charge for a generator operating at a 60% load factor. On its own, this is significantly above ERGEG's guideline tariffication charge of €2.5/MWh.

Secondly, if the charging methodology is working, then the charges in this area should provide a signal not to flow electricity from GB to Ireland. Given the assumptions made (and not contradicted) in the consultation, the signal, and thereby the methodology, is clearly not working as intended.

Thirdly, given the volatility inherent in National Grid's Charging model, if there is a flow, once flowing from GB to Ireland, the UoS charge will only increase from this already high level, with a consequent impact on the Interconnectors. In addition, if correct, the signals being given by National Grid's Charging Methodology would suggest that any flow of electricity out of GB to Ireland will exacerbate North-South GB flows and hence constraint costs in GB.

We believe that the above contradictions highlight deficiencies in National Grid's Charging Methodology and Model. These deficiencies are likely to have a detrimental impact on the use of the proposed Interconnectors. We believe this highlights again the need for a review of the current GB charging arrangements.

For the avoidance of doubt, whilst we have concerns over the efficiency of National Grid's Charging Methodology and Model, and the detrimental impact it could have on the use of the Interconnectors, we believe that it is appropriate that the operation of the Interconnectors is carried out under exemption.

Our responses to the questions are given below.

Yours sincerely

Robert Hackland
Regulation Manager

Questions

Chapter One Question 1

Do you agree with our proposal to treat the EW1 and EW2 Interconnectors as a single project for the purpose of our evaluation of the exemption criteria?

Yes. However, we would not expect to see a backward investigation or re-opening of exemptions following a second application for exemption.

Chapter Three Question 1

Do you agree with our overall assessment that the exemption should be granted based on the examination of whether the exemption criteria have been met?

Yes. However, we would not wish to see the application of the 40% and 70% rules for capacity holding setting a precedent for application in a wider context.

Chapter Four Question 1

Do you agree with the proposed scope and duration for the exemption, and the conditions for revocation?

Yes.