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5 December, 2008

Dear Anthony,

### **GBECM-11: Consultation and Impact Assessment**

Thank you for the opportunity to respond on the above consultation and impact assessment. E.ON UK supports the introduction of a local transmission circuit charge. However, we do not support the introduction of a specific substation charge.

### **General rationale for the change**

Although we are generally supportive of the proposal, we are unconvinced by part of the rationale for the changes. The proposal seems to have originally been raised to account for an inconsistency between the investment allowed under at least one of the Transmission Owner's (TO) price controls and the requirements of the SQSS. That is, the TO concerned has not been allowed sufficient revenue to provide generators with the minimum standard of connection to which they are entitled under the SQSS. We remain very concerned that such a situation should be allowed to persist. However, it is not appropriate to engineer a solution to this inconsistency through the charges to generators. Instead, the SQSS and the price control should be made consistent with each other.

In relation to how effective the charging change will be it should be borne in mind that a significant number of generators in the queue have already made decisions to accept design variations in their connection designs. This has been for a number of reasons but a key one is in order to overcome planning objections. It is not clear that this change will alter the decisions that have already been taken in respect of a queue of connection dates covering at least the next ten years. We believe that this change will have a limited effect on influencing investment decisions for some time to come.

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We do agree that a local charge is required in order to facilitate CUSC proposals CAP161 to CAP166. However, the substation charge is not a necessary element for this purpose. We have concerns about this part of the proposal which we believe National Grid and Ofgem should share at least due to the inconsistencies it introduces between locational charges for demand and generation users and how this affects the current debate on embedded benefits.

### **Substation Charge**

We do not support the introduction of a substation charge. The present TNUoS charging methodology entails the socialisation of substation costs for both demand and generation connections through the wider residual charges. These costs are smeared over both demand and generation TNUoS charges. The change proposed in GBECM11 would create a situation whereby the cost of demand substations will continue to be smeared across charges for both generation and demand users, but generation substation costs will be targeted at the relevant generation users specifically. Therefore, this would introduce discrimination in treatment between these categories of user.

Of course, there are good reasons why it is difficult to create a specific local charge for demand users. Demand charges are levied on the demand of the supplier across a whole GSP Group. Therefore, it is not possible to allocate specific local assets to particular suppliers. We do not propose that the arrangements are changed to provide a substation charge for demand. The most pragmatic solution would be to remove this element from GBECM11 altogether.

We note that this proposal in effect increases the level of the locational specific charge to be recovered from generators. Correspondingly the residual tariff for generators will reduce. This will need to be borne in mind by National Grid and Ofgem in future discussions about the treatment of embedded generation. Although we do not share the concerns on present levels of embedded benefits, this proposal will effectively create a difference in locational tariffs between demand and generation users. Previous concerns of National Grid in this respect have focussed on the difference in residual tariffs between the two classes of user. The newly created difference in locational charge will presumably also have to be considered.

### **Spare Capacity**

We agree with National Grid's assessment that spare capacity should not be taken into account as part of the circuit charge. Spare capacity is created by the chunky nature of investment on the system. That is, transmission assets cannot always be built to exactly meet the amount of capacity that is required by the generator. This creates spare capacity that can be used by later connecting generators. The initial generators are only charged for the capacity they need. Therefore, it follows that the spare capacity should not be released at no cost and that later generators should pay on the basis of the capacity they require too.

I hope the above comments prove helpful.

Yours sincerely

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Trading Arrangements