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Dear Anthony

Electricity transmission charging: assessment of options for change

We welcome the opportunity to provide a response on the electricity transmission charging Significant Code Review (SCR) consultation under Project TransmiT. In the main body of this response we present some relevant background and our thoughts on Ofgem's initial views. We have also included an annex setting out our responses to the specific questions raised in the consultation.

National Grid, through our subsidiary National Grid Electricity Transmission plc (NGET), owns and operates the electricity transmission system in England & Wales, and is the National Electricity Transmission System Operator (NETSO) for the whole system across Great Britain. In our role as NETSO we collect allowed revenue associated with the cost of providing transmission assets, on behalf of all Transmission Owners (TOs), through Transmission Network Use of System (TNUoS) charges.

The Use of System Charging methodology, which outlines how TNUoS is calculated, is set out in the Connection and Use of System Code (CUSC). National Grid has associated obligations under its transmission licence to:

- keep the Use of System Charging and Connection Charging Methodologies at all times under review
- make such modifications of the Use of System Charging Methodology as may be requisite for the purpose of better achieving the relevant objectives, which are:
  a. to facilitate effective competition in generation and supply;
  b. to result in charges which reflect, as far as reasonably practicable, the costs incurred by transmission licensees in their transmission businesses;
  c. in so far as is consistent with a) and b) above, as far as reasonably practicable, to properly take account of the developments in transmission licensees' transmission businesses.
- not to discriminate against any User or class of Users unless such different treatment reasonably reflects differences in the costs of providing a service.

Any potential changes to the methodology arising out of the SCR would be subject to the CUSC governance process. In order to progress either of the two alternative approaches to TNUoS charging set out in the SCR consultation (the 'Socialised' model or 'Improved Investment Cost Related Pricing (ICRP)' model), it is likely that Ofgem would direct National Grid to raise one or more modification proposals to the CUSC. At the outcome of such a

process the modification proposal(s) and any alternatives would be assessed against the relevant objectives, as set out above.

National Grid welcomes the open and transparent manner in which this process has been undertaken to date. The active contribution of all those who have participated thus far through the industry working group and consultations has led to significant progress in setting out and exploring the issues, despite the relatively short timescales. Nevertheless, we note that a considerable amount of work would still be required through the CUSC process, in order to effect a revised TNUoS charging methodology.

We agree that some form of cost-reflective charging is likely to allow for sustainability and security of supply objectives to be met in the most cost effective and equitable manner for the end consumer. Our view is supported by well-established economic principles, additional information gleaned through the working group debate and the outcome of the quantitative analysis undertaken by Ofgem's consultants.

As highlighted through the TransmiT process, National Grid continue to believe that the electricity transmission charging methodology would benefit from development to reflect the increasing amount of network capacity sharing amongst Users on the wider network. We also consider that some form of 'Improved ICRP' approach, as discussed in the working group, would lead to more cost reflective charges.

The current charging objectives, as outlined above, have to date supported progress toward a low carbon energy sector whilst continuing to meet the broad needs of consumers in an efficient manner. These principles have delivered these benefits against an evolving industry background, and remain pertinent going forwards. However, it is essential that they continue to be fit to deliver the significant challenges of moving to a low carbon energy sector. Therefore we agree that the relevant charging objectives should be updated to take account of potential long-term and strategic sustainability goals.

Going forward it is important for Ofgem to consider the form and detail of any SCR direction such that it best facilitates an effective and timely industry process over the course of 2012. Whilst the proposed timescales remain challenging, National Grid looks forward to continuing the level of active contribution in order to allow for a timely conclusion on the future form of transmission charges.

If you wish to discuss any of these issues or comments further, or have any other queries regarding this response, please contact either myself or Ivo Spreeuwenberg on 01926 655897.

Yours sincerely

[By e-mail]

Patrick Hynes
Electricity Charging and Access Development Manager

Annex 1 - Response to Specific Questions Posed in the Consultation

Chapter 4

Q1. Do respondents consider that we have appropriately identified and where possible quantified the impacts of the Project TransmiT options?

The working group discussed a wide range of options for charging under TransmiT and, whilst it was not possible to model each and every variant of the 2 alternatives investigated, we acknowledge the work by Ofgem to take on board and model sensitivities as these arose through the process.

Invariably the detailed input into any quantitative economic modelling exercise requires a level of qualitative judgement and, as such, is open to a degree of challenge. However, through feedback on these assumptions from the technical working group and the testing of various sensitivities, our view is that this uncertainty has been sufficiently mitigated and taken account of to allow for a reliable indication of the impact of the charging options investigated.

Q2. Do respondents consider that there are additional impacts which we should take into account in the decision making process and, if so, what are these?

All material impacts appear to have been taken into account in the decision making process to date. We recognise that there is still a considerable amount of work to be done through the industry process.

Q3. Do respondents consider that we have appropriately identified the potential interactions of the Project TransmiT options?

We believe that the potential interactions have been properly identified and recognise that the CUSC process will further investigate any potential areas..

Q4. Do respondents consider that we have appropriately identified the likely impacts and consequences of these interactions?

Yes, these have been appropriately identified, taking into account certain areas of the industry framework that are still under development (e.g. EMR).

Chapter 5

Q1. Do respondents consider that we have appropriately identified and taken account of the key sustainability issues?

Yes.

Q2. Do you think there may be long term and strategic benefits associated with the development of HVDC technology, in particular the treatment of converter station costs for links that parallel the AC network, which Project TransmiT modelling has not fully considered because of the timeframe of the modelling (i.e. 2030) and the limited nature of bootstrap options?

The process to date has fully addressed the issues likely to have an impact on charging arrangements.

Q3. Do you have any supporting evidence for a different treatment of the converter station costs for the planned bootstrap HVDC options?

When HVDC is used in parallel with the AC network, the converters provide a significant amount of flexibility to the System Operator when operating the network. This flexibility is comparable to that provided by reactive compensation devices and quadrature boosters, the cost of which is recovered through the residual element of tariffs.