

Patrick Hynes  
Electricity Charging and Access Development  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

30<sup>th</sup> May 2006

Dear Patrick,

**BRITISH ENERGY RESPONSE TO NATIONAL GRID'S PROGRESS REPORT ON  
GB CHARGING CONDITION 2  
REVIEW OF INCREMENTAL COST OF CAPACITY WITHIN THE GB  
CHARGING METHODOLOGY**

Thank you for the opportunity to comment on the above report.

As a matter of general principle we do not support administered transmission charges that vary excessively by location for incumbents. The case for forward looking marginal cost locational pricing in a system with large historically sunk costs will never be overwhelming.

Notwithstanding our view on the charging model used we agree with National Grid's conclusion in respect of this particular charging condition i.e. that any changes in respect of the cost of incremental capacity should be focused on improving the transparency of the calculation rather than in changes to the methodology. We consider that the present methodology strikes a reasonable balance in terms of the treatment of the individual elements which contribute to the derivation of the expansion constant.

It was perhaps inevitable that the various workshops and industry meetings would be evenly split around those advocating an increase in the cost of incremental capacity and thereby seeking to increase locational differentials and those seeking to reduce differentials. There is clearly a balance to be struck in order to achieve a cost reflective, transparent and stable outcome and we think National Grid have on this occasion got this about right.

We also agree that the level of understanding of the processes used to derive the incremental cost of capacity needs to be improved. The tutorial session was very well received by the industry and it is suggested, given the turnover of staff across the industry that consideration be given to repeating it perhaps annually.

Finally we would like to thank National Grid for the manner in which they conducted this thorough and comprehensive review. We have appreciated the opportunity to contribute to

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the debate at the various workshops and at the Charging Issues Standing Group (CISG) meetings and will continue to play our part going forward.

Please free to contact me in the office on 01452 654182 (mobile number 07774 767722) or Louise Allport on 01452 652187 should you wish to discuss this response further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Capener', with a long horizontal flourish underneath.

John Capener  
Head of Transmission and Trading Arrangements  
British Energy Power & Energy Trading