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Dear Tom

Charging and access arrangements associated with SQSS design variations based on customer requests

I am writing in response to NGET's consultation on its proposals to address the problem of inefficient capital expenditure to facilitate new connections to the main interconnected transmission system.

Scottish and Southern Energy does not support the modifications to the transmission network use of system (TNUoS) charging methodology proposed by NGET. A change to the charging methodology alone will not, in our opinion, address this issue in a cost-reflective and sustainable basis. Further, we believe that the continued 'tinkering' with the charging methodology to address issues on an ad-hoc basis is destabilising to the industry. Ultimately, the insecurity and uncertainty about the future of use of system charges is jeopardising the development of renewable generation in the north of Scotland. Instead, we believe attention should first be directed towards the GBSQSS.

In principle, we believe the SQSS should specify a minimum level of service that can be expected from the transmission infrastructure. On that basis, it is clear that there should be no

incentive to opt for an even lower level of service (but users may opt for a higher level depending on that particular user's requirements, provided that user pays for it). The level of expenditure to provide this minimum level of service would inherently be the economically efficient level. The fact that, under a different charging methodology, users have historically been choosing a lower level of security than the default position under the current methodology and SQSS application implies that attention should be directed initially at the SQSS, since it is the SQSS that defines the minimum standards. Only then, when a basic "vanilla" service level has been defined for different types of generator, would it be appropriate to consider amendments to the GB charging methodology.

However, NGET are currently proposing to modify the transmission network use of system charging methodology such that generators that opt for a standard of connection lower than that specified in the SQSS receive a discount. This discount will include a circuit and substation element. The intention of this change is to provide a mechanism by which the capital savings associated with the lower connection standard are passed on to the customer and hence provide an incentive on the developer to consider derogating from the SQSS. Without an incentive, customers will continue to opt for an SQSS compliant standard of connection resulting in potentially inefficient investment in the transmission system.

As NGET pointed out in the pre-consultation paper, the problem of potentially inefficient capital expenditure to facilitate new connections to the main interconnected transmission system is a significant issue in the highlands and islands of Scotland and will, in the future, be an issue for offshore connections. Consequently, Scottish and Southern Energy has a significant interest – and particular insight – into this problem and the impact of NGET's proposed solution. Our specific comments on this proposal are set out below.

Our concerns with respect to the proposals in the consultation paper are three-fold:

- Firstly, and fundamentally, we continue to believe that it is inappropriate that generators should make decisions about investment in transmission infrastructure – that is clearly the responsibility of the transmission licensees. Generators can, and should have, the ability to decide on the design of the connection assets, since they pay directly for these. Further, we believe it is inappropriate that the charging methodology should be used as a mechanism to "incentivise" generators to make the efficient choice.
- Secondly, we do not believe that the changes proposed by NGET will work. In the first instance, the change proposed will make the already complex access and charging arrangements even more complicated. If the SO and TO are not in a position to make the economic choice over the connection design, then how will the developer make this choice? In addition, our analysis and discussions with developers indicates that the discounts proposed – and, in particular, the circuit discount – are not sufficient to encourage developers to derogate. The discount must be balanced against the additional

risks that the developer would be exposed to including the loss of access rights, the commercial decisions of future developments and the instability of the charging methodology.

- Finally, we are unclear about how this proposed change would be implemented and are concerned that the implications of this modification on, for example, access arrangements, connection offers and charging, management of the GB queue and future reinforcements to the transmission system have not been thought through. In addition to the draft change to the charging statement that NGET have published, before we can assess the impact of these proposals we would like more details on (and this is just our initial thoughts on the potential changes required):
 - The changes to the STC to accommodate the additional step in the connection charging process (in particular, we believe that the 90-day turn around of offers and application fees will need to be reviewed);
 - How this will impact on the optimisation process – it has taken almost two years to get all the GB connection offers issued, will all these offers have to be reopened?;
 - The treatment of pre-BETTA and post-BETTA connection offers;
 - The treatment of clusters;
 - The treatment of complicated connection designs not covered by the 33/132 kV, 132/132 kV and 400/400 kV substation designs included in the proposals; and
 - The change process following an offer but before connection. If, for example, planning decisions alter a line route (to avoid a SSSI say) this will change the TNUoS discount – should the connection offer be reopened? Similarly, if a developer withdraws from a cluster, should the connection offer be re-opened for the remaining developers (particularly as the TO is likely to redesign the connection)?

Generators and prospective generators are looking for stability and certainty in TNUoS charges. This proposal, if implemented, will only result in further instability and uncertainty. In return, the benefits of this change are not clear – how many of the over 100 prospective developers in the GB queue would accept this TNUoS discount?

In conclusion, we believe that NGET's proposals in the consultation paper have a high cost (in terms of further complicating the access arrangements and management of the GB queue) for little benefit (how many developers will accept this option). Consequently, we urge NGET to look again at the SQSS, access and charging arrangements with a view to producing a stable regime that can be clearly understood by all parties. If, however, NGET decide to proceed with submitting this proposal to the Authority for approval then we believe that the proposals are of such importance that the Authority should undertake a thorough impact assessment

considering, in particular, the benefits to competition in generation of such a complex use of system charging methodology.

If you would like to discuss our comments further then please give me a call.

Yours sincerely

David Densley
Regulation Manager