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Dear Tom

Pre-consultation document GB ECM-08

For the charging arrangements associated with the offshore transmission network

Scottish and Southern Energy (SSE) welcomes NGET's early pre-consultation on the options available for modifying the charging arrangements to provide for future offshore transmission networks. Further, we agree that it is necessary to apply the same primary objectives to the charging arrangements for offshore transmission as apply to the onshore charging regime. The pre-consultation document raises a number of specific issues on how this can be achieved and I set out our detailed comments on these below.

The boundary between connection assets and transmission system infrastructure assets

The first issue raised in the pre-consultation document relates to the location of the boundary between a user's connection assets and transmission system infrastructure assets. Specifically, the document asks for views as to whether it is appropriate for the electrical boundary as it is currently defined for charging purposes to be applied to new generators located offshore.

SSE agrees that the asset boundary as it is currently defined is fit-for-purpose, and should be maintained for new offshore generators. We do not believe that a different treatment for offshore

generators can be justified, and further believe that to introduce a different regime for offshore generators could be considered discriminatory.

It is our understanding that paragraph 1.6(c) of NGET's current Statement of the Connection Charging Methodology (CCM) would apply to offshore generators. As the subsea cable is certain to be greater than 2 km in length, then the cable would be classified as transmission infrastructure. At the offshore substation, the Offshore Transmission Owner (OFTO) would be obliged to build to the standard specified in the GB SQSS and the user-OFTO asset boundary would be defined at the low voltage busbar.

However, given the recommendations of the GB SQSS subgroup regarding the capacity of offshore substation assets (that is, zero redundancy connections), it is possible that the customer may opt to exercise customer choice over the design of the offshore substation. For example, in order to achieve a greater degree of firmness, a customer may opt to apply customer choice to increase the size and/or number of transformers. In this instance, paragraph 1.8 of the CCM states that *"the affected assets will be classed as connection assets"*. Where this principle has been applied previously, the boundary has typically been defined at the high voltage busbar. If a similar approach were to be adopted offshore then the offshore substation would be classified as transmission system connection assets.

The CCM does not consider the issue of customer choice in detail (possibly because there have been few instances to date in England and Wales); hence we believe NGET should consider providing more information in future connection charging methodology statements about its approach to connection charging where an offshore generator has opted for customer choice (e.g. to identify, by example, those assets that would be classified as transmission connection assets).

Changes to the Use of System Charging Methodology

The second issue raised in the pre-consultation document relates to potential modifications to the Transmission Network Use of System Charging Methodology (UoSCM). Specifically, the document asks for views about the calculation of the expansion factor for offshore circuits and the treatment of HVDC technology.

In principle, SSE would not support any change to the UoSCM that resulted in different treatment for one group of customers. This would, in our opinion, be discriminatory and not consistent with NGET's licence obligations. As a consequence, we believe that such changes as are suggested in the pre-consultation document require detailed scrutiny considering, in particular, whether such changes represent a cost-reflective, proportionate and enduring solution.

The pre-consultation document suggests that a different approach may be required to calculate the expansion constant for offshore circuits as there are no historic data available to use in the calculation. To address this issue, one of the options proposed is a project specific expansion

factor derived from the allowed revenue of the OFTO. This would be a significant change to the UoSCM that would allocate a specific cost to a specific circuit rather than an 'average' cost to all circuits of the same voltage (as is currently the case). This would impact upon the locational element of the charge, but not the residual (which would still include the OFTO's allowed revenue; hence this revenue would still be recovered from all users).

Such a significant change to the methodology should, in our opinion, be considered with caution and the wider implications identified and assessed. It could be argued, for example, that for many existing and proposed onshore circuits there are no historic data with which to calculate an accurate expansion factor and, hence, it would be appropriate to apply a similar approach. This has been demonstrated to be a particular issue for 132 kV circuits, and we understand that NGET are currently reviewing the derivation of expansion factors for 132 kV circuits with a view to developing a more circuit specific approach.

Changes to the derivation of expansion factors for 132 kV and offshore circuits would represent a further move away from the core of the UoSCM. It is not evident that the cumulative effect of these (and other) changes would represent a convergence towards a open, non-discriminatory and cost-reflective UoSCM rather, in our view, these changes would result in the UoSCM is becoming more complex, more opaque to users and less cost-reflective.

The key issue for users is whether the incremental charge for a new connection reflects the incremental investment required over-and-above the prevailing tariff at the node of connection. In our view, the UoSCM for deriving the charge should be the same regardless of whether the customer is a windfarm in the Wash or a windfarm in mid-Wales or, indeed, a gas-fired power station on the south coast.

In our view, the options set out in the pre-consultation document represent a further set of proposed 'fixes' to a model that is demonstrably not working. It is not appropriate, in our opinion, to continue to apply peripheral 'fixes' on an ad-hoc basis (for example, for offshore, for single-circuit designs, for distributed generation, for limited duration products) without examination of the core of the UoSCM. We continue to believe that a thorough review of the UoSCM is required with a view to determining a methodology that is fit for the challenges that face the GB transmission network as a result of, in particular, the changes to the traditional pattern of network useage and the evolving generation mix.

I hope these comments are helpful, and if you would like to discuss this further then please give me a call.

Yours sincerely,

Aileen McLeod
Regulation Analyst