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6th August 2007

Pre-consultation GB ECM- 008
For the charging arrangements associated with the Offshore Transmission Network

Dear Tom,

Thank you for the opportunity to respond to the above pre-consultation. The following comments are provided on behalf of the following RWE group of companies: RWE Trading GmbH, RWE Npower plc, Npower Cogen Trading Ltd, Npower Commercial Gas Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd, Farr Windfarm Ltd, and An Suidhe Wind Farm Ltd.

RWE welcomes the timely issue of this pre-consultation document, which gives Users the opportunity to consider the likely charges arising from an offshore connection and the impact on the charging methodology.

We agree with the need identified in 4.1 to establish the connection boundary at an early stage in the charging process. Of the three connection boundary options proposed in the consultation, RWE consider that the connection boundary should be as for onshore connections (i.e. Option 1) – that is, with majority of offshore assets counting as infrastructure. We note the Ofgem/BERR expectations that the onshore charging principles will be applied offshore unless amendments are required and, to this extent, we can see no compelling reasons for change. We are further concerned that considerable offshore connection assets would serve to place liabilities and obligations on projects which would be difficult to challenge or control.

We agree with the suggestion that socialising substation costs would not be cost-reflective but would suggest that this is a strong argument for including substation costs within expansion constant/expansion factor calculations for both onshore and offshore, rather than for adjusting the connection boundary.

We recognise that the Option 1 approach will place significant extra revenue into the total revenue to be recovered through TNUoS. Whilst we would not support the

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general approach of placing more and more revenue in this fashion, as it dampens the cost-reflectivity of the tariffs, on this issue it would be a sensible and pragmatic approach.

As pointed out in the pre-consultation, our favoured approach (Option 1) would then necessitate the calculation of appropriate expansion factors for offshore connection. We believe that, due to the divergent costs of potential offshore projects and in order to maintain cost-reflectivity, specific expansion factors will need to be calculated for individual offshore connections. As an example for the differing costs of connections, one can compare two connections of similar distance from existing infrastructure: one that has a significant proportion of the infrastructure required onshore, the other an insignificant proportion. The two connections would clearly have vastly different costs which would only be reflected through a bespoke approach to calculating expansion factors, and would not be fully reflected through a generic approach.

As the generic approach would compromise one of National Grid's licence obligations with regard to Charging Methodologies, that of cost-reflectivity, an amendment to the onshore charging methodology for offshore is required. Further to this, adopting a specific approach to expansion factors would allow HVDC costs to be accommodated relatively easily.

As regards the Offshore SQSS it should be remembered that a key difference compared to onshore is that zero redundancy will be the standard. This lack of choice will need to be considered when discussing charging arrangements.

Please feel free to contact me to discuss this response in more detail.

Yours sincerely

Andy Manning
Transmission Charging Manager
npower