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Dear Tom,

GBECM08 – Charging arrangements associated with the Offshore Transmission Network

Thank you for the opportunity to respond to the above pre-consultation document. This response is made on behalf of E.ON UK plc. We continue to believe that the offshore regime should follows the onshore methodology as far as possible unless there are very good reasons to do otherwise.

Our comments on the specific issues raised are as follows:

Offshore Connection/Use of System Boundary

We do not believe that there is a good reason for defining the boundary between Connection and Use of System for the offshore regime differently from that presently used onshore. Therefore, we would support the first of the options presented.

The suggested reason for adopting a different approach appears to relate to the fact that the cost of offshore assets is generally higher than that of those onshore. Whilst this is no doubt true, it is not clear why this should result in different treatment in the charging methodology. The present methodology reflects different cost levels through the expansion factors in the DCLF model. It is unclear why this would not be sufficient for offshore assets as it should work with all levels of costs.

The consultation states that substation costs are assumed under the onshore regime to be "broadly proportional to Transmission Entry Capacity" and this is one reason why they can be socialised through the residual tariff. In other words, this implies that the costs per MW of installed capacity are similar regardless of the voltage of connection. However, the work undertaken to calculate the substation discount in modification GBECM – 06, regarding charges for SQSS design variations, shows that this is not the case. Therefore, the fact that the cost of substations for offshore connections is higher than that for onshore is not a reason in itself for treating them differently.

Similarly, the expected reduction in tariffs of other generators due to the 27:73 sharing of costs between generation and demand is also not a reason for change. This situation can occur now under the onshore regime and presumably already has done. The difference with offshore connections is that the effect would be more noticeable. Indeed, this tariff decrease should not be portrayed as a discount to the generators concerned, rather than a rebalancing of the total pot of generator charges to reflect the new generator connecting. Importantly, the locational charges of the generators would not be affected. The residual charge would simply reduce for all generators, including the offshore generator concerned. Moreover, a similar effect would be observed under the present onshore methodology if there was an increase in TEC provided to a generator that did not require a significant level of investment to accommodate it.

Offshore Circuit Expansion Factors

Two options are expressed in the consultation document: a specific approach and a generic approach. The generic approach would be the same as is used at present in the onshore regime. Under the specific approach expansion factors would be derived on a station by station basis to recover the specific offshore costs incurred to accommodate the relevant generator. This would effectively implement a deeper charging approach within the existing shallow regime and as such would be inappropriate.

We agree with National Grid's summary of the advantages and disadvantages of the options. The advantages are that the generic approach allows Users to predict their likely TNUoS charge liability and it ensures that the onshore and offshore arrangements are consistent. The disadvantages are that there is a risk of a variance between the generic charges and the costs of specific connections, and that a review of the method for deriving the generic charges would be required periodically. However, this is no different from the situation that pertains for the existing onshore methodology. In fact, the above describes the advantages and disadvantages of shallow versus deep connection charging. The difference for offshore transmission is that the cost differences may be higher and that the costs are presently more uncertain.

The other benefit of a generic shallow regime is that a generator is not charged for assets that might ultimately benefit another generator wishing to connect in the same area. Therefore, such a generic approach may better support changing connection designs that evolve as more generators seek to locate in a particular area.

We would therefore favour the generic approach.

High Voltage Direct Current

Again, we are presently unconvinced that there is a need for different treatment of DC connections. The argument appears to be that the requirement for converter stations increases the cost of these connections justifying an alternative approach. We do not follow this logic. As with our comments on the Connection/Use of System boundary, if the methodology is correct then it should be able to deal with all costs.

Our understanding is that National Grid believes that a cost should only be included in the locational charge if its level is related to length in some manner. For instance, an overhead line's cost is expected to increase proportionately to its length and is therefore included. This is the reason that the cost of substations is included in the residual tariff rather than the locational charge. If it is indeed the case that the cost of converter stations increases with the length of the relevant DC cable then there may be a case for such treatment.

In summary, we continue to believe that the onshore charging arrangements can be adopted for the offshore transmission regime. If the other proposals in the paper are adopted, then the shallow charging methodology that exists onshore will be undermined for offshore connections for no apparent good reason.

I hope that the above comments prove helpful. We look forward to National Grid's views on these issues in the full consultation.

Yours sincerely

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Trading Arrangements