



taking care of the essentials

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### **GB-ECM10 – TNUoS Generation Zoning Criteria**

Dear Mathew,

Centrica welcomes the opportunity to comment on the GB-ECM TNUoS Generation Zoning Criteria pre-consultation.

#### **Q1)**

a) Yes, we believe that this would constitute an exceptional circumstance. This will particularly occur with offshore generators, but could also apply in other situations and could have a significant impact on tariffs.

b) This example should only be an exceptional circumstance *if* a range over/under the +/-£1.00/kW criterion was implemented (such as that proposed in the document and in question 2), otherwise we would recommend leaving the zone as is until the next Price Control review.

c) The same response applies as for Q1b) above.

#### **Q2)**

Centrica believes that an additional criterion (such as the +/-£0.50/kW for the examples in questions 1b & 1c) would be useful. It would help preserve stability while - if marginal costs went outside this additional range - new zones would be implemented which would preserve cost reflectivity. The magnitude of the additional range implemented would really depend on what the industry valued more, cost-reflectivity or stability. The larger the range, the more stability we would have at the expense of cost-reflectivity. It might be useful if NGET could provide the backup marginal cost data used when producing the 2007 GB Condition 5 report in the next consultation on GB-ECM10, to get a feel for how large this additional range needs to be.

#### **Q3)**

We see this situation as relatively straightforward. Major industry reform impacting Users' tariffs should constitute an exceptional circumstance. With such a 'major' impact we would want to favour cost-reflectivity at this point, rather than stability.

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**Q4)**

It is appropriate to review the +/-£1.00/kW criterion so that other alternatives can be assessed along with their impacts, to confirm that currently the correct objectives are still being met to industry satisfaction levels – i.e. cost reflectivity and stability.

**Q5)**

Centrica believes that this option is worthy of serious consideration. Since the expansion constant is inflated by RPI each year, keeping the +/-£1.00/kW criterion constant means there is a greater chance of a generator (especially those close to the criterion limits) falling out of a zone (albeit, as shown, historically this impact is fairly small). By inflating the criterion by RPI, it is at least more consistent with the methodology in calculating marginal costs in the charging model. It also should not increase the criterion to too great a degree, so that 1) cost reflectivity is preserved and 2), when generators do change zones the jump in tariffs will not be that high, hence preserving an element of stability in tariffs. We would be most comfortable with using the +/-£1.00/kW criterion level and start inflating from 2008 onwards, so as to attempt to avoid step changes in tariffs.

**Q6)**

We do not agree with this option. It is possible that the +/-£1.00/kW criterion could be inflated by more than is desired for the interest of tariff stability.

**Q7)**

Centrica does not propose that consideration be given to adopting the existing demand zones for generation zones, with no periodic review. This could force generators into larger zones and could greatly reduce the cost-reflectivity and locational signal of TNUoS charging.

If you have any questions or comments relating to this response, please contact me on the number above or at [dave.wilkerson@centrica.com](mailto:dave.wilkerson@centrica.com).

Yours sincerely,

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