

Tom Ireland  
 Electricity Charging and Access Development  
 National Grid Electricity Transmission plc  
 National Grid House  
 Warwick Technology Park  
 Gallows Hill  
 Warwick  
 CV34 6DA

Name Andy Manning  
 Phone 0779 535 3544  
 E-Mail [andrew.manning@npower.com](mailto:andrew.manning@npower.com)

27<sup>th</sup> March 2008

## **Pre-Consultation GB ECM- 11Charging arrangements for Generator Local Assets**

Dear Tom,

Thank you for the opportunity to respond to the above pre-consultation. The following comments are provided on behalf of the RWE group of companies including RWE Trading GmbH and RWE Npower plc.

RWE continue to believe that more accurate arrangements are required to reflect the costs incurred in connecting Generation and Demand. We believe that the charging methodology remains the preferable method of recognising these costs and agree that assets that are local to a generator (or load) should be treated differently within the charging methodology. We further believe that to maintain cost-reflectivity, and so to reflect the correct value of SQSS design variations in charges, asset specific charging is required combined with the ICRP approach.

### General

In calculating Use of System charges, the revenues obtained from the “residual” component of the charges scales the calculated economically determined locational element of the charge to match the revenue permitted under the price control. In reality the “residual” element is substantially greater than the marginally derived component. Thus the bulk of the Use of System charge is effectively an allocation of the price control annual revenue varied by the marginal cost calculation. This fact should be borne in mind when considering the charging arrangements for Local Assets.

Any generic approach will necessarily lead to inaccurate signals in the majority of cases. OFGEM indicated in their decision to veto GB ECM-06 that the circuit discount in that instance did not compare well to the actual costs savings from

RWE npower  
 Trigonos  
 Windmill Hill Business  
 Park  
 Whitehill Way  
 Swindon  
 Wiltshire SN5 6PB  
 T +44(0)1793/87  
 77 77  
 F +44(0)1793/89  
 25 25  
 I  
[www.rwenpower.com](http://www.rwenpower.com)  
 Registered office:  
 RWE Npower plc  
 Windmill Hill Business

building a single circuit following a review against new build cost information provided as part of the Transmission Price Control Review. For any discounts for design variations to be economically effective the arrangements for local assets must reflect the site specific assets accurately. In this context, it should be recognised that any generic approach must lead to inaccurate signals in a number of instances.

Furthermore, we note that the methodology used in ICRP is applied to Generation and Demand; the connection charging methodology also applies to any connecting parties: generator, distribution business or a connected demand. The charging methodology that is applied to Local Assets should treat generation and demand in a similar manner so that the cost reflectivity and capital efficiencies can be gained over the whole range of users.

We also note that considerable work has been undertaken in this area by Distribution Network Operators and would encourage NG to consider if this work has any relevance in the Transmission field.

#### Option Assessment

Generally we believe that the charging methodology should be applied in a consistent manner recognising the physical and financial characteristic of the network elements.

In considering the various options in the consultation we have also reflected the general observations noted above.

#### Specific Treatment of Generation Assets

It is reasonable to consider the local asset costs, since it is against these costs and benefits that the decisions to build a substantially different connection will be made. We are not in favour of generic costs as it is shown by NG in the consultation that the range of costs can be quite large. This demonstrates the simple fact that if a generic cost base is used to derive a discount, and the user can demonstrate that for the specific connection a more financially efficient structure can be found, the gains for a lower standard of connection would not be fully reflected.

A model of the GB transmission system, to which additions and modifications of sub-stations and branches are made, is well known and is fixed to specific locations. This means that it is feasible to keep track of the specific connections and their associated costs which can be used in the charging process. This would lead to a more precise cost reflectivity and pose no problems with predictability, as the costs are specific to the connection. The effects of other users, local to that connecting area, impacting on the charges is a fact that all users are faced with currently on the wider system.

Care must be taken to ensure that the locational signal for the MITS is fully cost-reflective, but this should lead to a user being liable to a cost-reflective general TNUoS charge combined with a cost-reflective site-specific TNUoS charge, to give an overall economically efficient signal.

### Specific Treatment of Distance to Hub

This concept of a local hub and distance to a hub is subjective in nature. The zones may change and certainly any definition of “hub” could be the subject of much discussion leading to unclear financial decisions. Charging arrangements that are “simple and predictable” have little merit unless they also reflect underlying costs. There must be a concern that this approach would lead to obvious examples where the charges were significantly out of line with costs and thus open to challenge.

For this proposal to progress it will be necessary to show how the issue that the methodology can not reflect the asset specific savings that will result to the user from an election for a variation to the SQSS design standard (or for any other restriction leading to a different type of design of connection) can be overcome.

### Sub-Station Assets

In our response to the recent consultation “Charging Arrangements for Design Variation Connection, GBECM-09”, we stated that for charges to be cost-reflective, it must be based upon the actual capital savings realised through the design variation connection and, as this is likely to vary significantly between connections, it will require assessing on a site-specific basis. Similarly, if the discount is to be cost-reflective it must reflect all capital savings thus including all types of substation assets.

We welcome NG's inclusion of the table of sub-station costs by voltage in Appendix 3, and believe that this further highlights that care is needed when applying this method of treating sub-station costs as a specific category within the current Charging Methodology. This may indicate that socialising substation costs in general is not cost-reflective and so it may be worth reviewing whether this appropriate in the existing TNUoS charging regime.

### Deepening of the Infrastructure / connection Asset Boundary

Deeper connection charges have the advantage of providing a clear signal to the developer of the incremental costs of connecting at any location; this can be viewed as encouraging capital efficiency. As the consultation document notes they would pass on directly to the user the savings associated with any design variation. However, they create difficulties when assets require replacement if they remain designated as connection assets. There may also be difficulties in defining what a spur is which were never satisfactorily resolved prior to the adoption of the plugs methodology. Furthermore, there could also be difficulties with any arbitrary allocation methodology for shared assets between generation and demand.

## Conclusions

The methodology for deriving Use of System Charges will be enhanced by reflecting costs as fully as possible both by considering the site specific assets and also by allocating the true costs of providing incremental power transfer across the network. This could be achieved by recognising that all equipment is involved in the power transfer and assigning costs to each element in the ICPR methodology, either directly in the power flow part of the procedure or via the cost of incremental capacity in the Expansion Constant. Once this is implemented, any cost saving for “design variations” or specific generation or demand connections would become apparent and an appropriate fully cost reflective discount may be apportioned.

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

Yours sincerely

Andy Manning  
Transmission Charging Manager  
npower