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Our ref

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Extension

Date

29 June 2007

Dear Sir

**Response to G3 Joint Consultation on the Longer Term Charging Framework  
May 2007**

Please find outlined below the WPD (S West) and WPD (S Wales) response to the G3 Joint Consultation on the Longer Term Charging Framework May 2007.

Chapter 3

1. **Different approaches to demand and generation.** WPD believes that it is appropriate to use the same treatment for demand and generation wherever possible. The main reason given for treating EHV generation differently to demand is because of the lumpy nature of the growth. This is also a characteristic of EHV demand growth and highlights a fundamental inconsistency.
2. **Is analysis by network group level appropriate?** The use of network groups is the source of two problems. The first is the possible disturbance in prices where a group of customers is moved between network groups and the second is the difficulty of applying the principle to heavily interconnected networks. WPD believes that both of these are significant drawbacks to the method.
3. **Is the approach of incrementing demands in 1% steps etc reasonable?** WPD believes that the use of a long run growth rate is appropriate for assessing long run costs.

Chapter 4.

1. **The approaches to determining demand and generation marginal costs.** The consultation places some importance on the selection of a priority list for assessing the appropriate reinforcement. At the recent workshop it was stated the use of an additional circuit was likely to cover almost all the first rein-



forcement requirements. Use of this option in a mechanistic way would reduce the complexity of the method, making it more transparent to users, and would reduce the scope for arbitrary decisions about the appropriate reinforcement.

2. **The time periods that should be used for determining costs.** It is not clear to WPD why there should be costs spread over time periods other than the possible explanation that due to the uncertainty of the data this will add stability to the prices.
3. **P2/6 Allowance for Generators** WPD believes that generators should receive the appropriate P2/6 allowance in line with those that would be applied in the system design process.
4. **Is the approach of using a typical generator size in determining the marginal cost approach appropriate?** The generation prices are based on arbitrary decisions about the size and location of standardised generation reinforcement. The size of this standardised generator is based on historic data and not the likely size of generators connections in the future. The consultation document itself also comments that there are relatively small numbers of new connections. These are considered too few to determine location but seemingly sufficient to determine the key parameter of the standardised generator size.

The use of a standard generator size gives no forward looking cost message to a generator that increases the utilisation of a circuit but fails to exceed the circuit rating.

This method is similar to the LRIC method in that it fails to give a locational marginal cost message when growth falls to zero or below. The forward looking cost element is only based on an accounting allocation of the costs allowed under the price control settlement.

Yours sincerely

A handwritten signature in black ink that reads "Nigel Turvey". The signature is written in a cursive, slightly slanted style.

Nigel Turvey  
Design & Development Manager