

Consultation on Mod.s P75 & P82 – Introduction of Zonal Transmission Losses

We understand the need for these modifications to be considered on their own merits, but have decided to make a single response as there are a number of serious concerns that apply to both proposals.

EIUG questions the need to introduce charging for transmission losses on a zonal basis. We believe that the attention currently being given to this issue is out of all proportion to the alleged 'problem', given that losses account for such a small proportion of NGC's costs, and a declining one at that. Even if there is a case to be made for locational losses for generation, which we doubt, it is not obvious why this principle should necessarily apply for demand. We are aware of no evidence that UK industry would re-locate in response to changes in transmission price signals. Introducing zonal transmission losses would therefore create winners and losers amongst individual industrial consumers, depending on the historical accident of their existing location, but no net benefit for consumers as a whole.

It is clear from the evidence presented at the Transmission Loss Factors Modification Group meeting on 24th September that a marginal loss approach such as P75 would result in exaggerated locational signals. It would be perverse to introduce a modification – ostensibly on the grounds of allocative efficiency – that resulted in such a distortion. This is less of a concern for a zonal average approach such as P82, which would cause smaller deviations from current charges. In this respect, P82 is preferable to P75.

We understand that a move to zonal losses would have an impact on the outcome of NGC's transmission charging review, as TNUoS charges are themselves zonally based. This might result in TNUoS charges between zones being levelled off and a reduction in the incentive for consumers to manage load in order to avoid TRIAD charges, with consequences for NGC at times of at times of peak demand when the system may be under stress.

We therefore urge that both modifications be rejected, but note that of the two proposals, P82 would be the least damaging.