

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Jose Manuel Hernandez
CEER Secretariat
Rue le Titien 28
B1000 Brussels
Email jose.hernandez@ceer-eu.org

Tel: 01738 456400
Fax: 01738 456415

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Dear M. Hernandez,

ERGEG Consultations on Congestion Management and Tarification

Scottish and Southern Energy is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage distribution and supply of gas; electrical environmental and utility contracting; domestic appliance retailing; and telecoms.

We are therefore interested in the development of the European energy markets and welcome these ERGEG consultations on congestion management and tarification.

Congestion Management

We are supportive of ERGEG's proposals for congestion management and welcome the increased clarity about market based mechanisms.

We particularly believe that increased inter-TSO co-operation is necessary to achieve this end.

We believe that there are specific instances where reserve prices for capacity need to be set. One example is merchant lines, where the owner needs to recover the costs of the assets. A reserve price is necessary in these circumstances to avoid operation at a loss. We therefore prefer the earlier wording regarding merchant lines.

Section 6 specifies what should happen to the revenues from allocation of capacity in any congestion management procedures. This implies a revenue neutral arrangement

in which case the TSO would have no incentive for increasing capacity. We believe the TSO should be incentivised to maximise available capacity by being allowed to keep a proportion of such revenues and exposed to symmetrical penalties if the congestion charges exceed pre-defined levels. Such a symmetrical incentive arrangement with suitable caps and collars to limit the TSO's exposure would help to ensure maximum availability of capacity.

Tarification

We believe that there should be a general harmonisation of the split of charges between generation and demand for network access. It would be difficult to achieve tariff harmonisation in the short term but at least a harmonisation of this percentage split should be possible.

In the initial steps ERGEG propose setting maximum national average "G" charges in the range of 0 to 0.5 /MWh with exceptions in some areas, specifically Nordel, GB and Ireland. It is not clear why these should be excluded, since doing so simply perpetuates any existing distortions. There may be reasons for the charges to initially be in this range so as to avoid step changes to charges, but we believe that a timetable should be set to bring this in line with the levels in the rest of Europe.

We agree that additional locational signals at a European level are not necessary (or desirable) at this stage. Indeed, we believe that they should in principle never be required provided that equitable arrangements for cross border congestion management can be developed.

Please give me a call if you have any questions on the above.

Yours sincerely,

David Densley
Regulation Manager