



taking care of the essentials

Stuart Easterbrook
Transmission Charging Manager
Commercial
National Grid Company plc
NGT House (Floor C3)
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA

Centrica Energy

Millstream East,
Maidenhead Road,
Windsor,
Berkshire SL4 5GD

Tel. (01753) 431052
Fax (01753) 431150
www.centrica.com
Our Ref.
Your Ref.
25 May 2004

Dear Stuart,

GB Transmission Charging: Initial Methodologies Consultation

Centrica welcomes the opportunity to provide comments to NGT on the above consultation.

Although we are supportive of the introduction of BETTA, we have severe reservations over the cost to customers of this proposed GB charging methodology.

We agree with NGT that there has to be a balance between cost reflectivity and stability. However, we suggest that as demand customers in England and Wales have already incurred an increase in their TNUoS charges by an average of 100% (the highest increase was 738%), following the introduction of super shallow connection charges in April 2004, we feel that it is inappropriate for customers to incur another significant increase in charges.

The illustrative demand tariffs within the consultation document represent an increase in TNUoS charges of up to 55% (scenario A) and up to 87% (scenario B) for England and Wales customers. This level of increase is unacceptable, especially as England and Wales generators will experience a further decrease in their charges under both these models.

Directly connected generators have already benefited from a significant reduction of their connection charges as a result of the move to a super shallow connection policy. This decrease in NGC's overall revenue was then replaced by a corresponding increase in TNUoS charges, the vast majority of which is paid by demand customers. Even though directly connected generators have experienced a marked decrease in their annual costs, no decrease in energy costs has been forthcoming, due to other market factors. This has resulted in an overall increase in costs to demand customers, who will, under these proposals, experience another step increase from April 2005.

Furthermore, we are very disappointed that following the furore over the surprise increase between the consultation indicative charges and the actual charges last January, that NGC

A **centrica** business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

have not provided more details of how they arrived at the £1.1 billion total allowed revenue. We understand that some of the figures that are included in this total may be commercially sensitive, however, we suggest that even a list of items included would be beneficial and helpful to the industry. We are further concerned that this figure may change within the range of +/- £100m, as stated at the May TCMF.

We are very concerned that the underpinning level of total allowed revenue for the three TOs will not be published and agreed by Ofgem until much later this year. This figure will have a major impact on all users of the system, especially suppliers, all of whom will have had to make commercial decisions on their pricing schedules in advance of this date.

We believe that if the GB charging methodologies were truly cost reflective then Scenario B (stated to be the most cost reflective of the two options) would not result in negative charging zones for demand customers and the split between Generation and Demand would not have to be altered. We suggest there is an urgent need to address either the generation / demand split or the charging methodologies to ensure both a reasonable level of stability and cost reflectivity are achieved for TNUoS charges in the long term. It is not in anyone interests to have suffered the recent volatility in these charges and to have to face them in the future. Notwithstanding, we do not support the introduction of negative charging zones within demand tariffs and urge NGC to update the charging methodology to abolish them for generators. We believe that charges to different groups of users of the system should not be inherently different. If negative charging zones are seen to have a perverse incentive on one group of users (demand) then they should be seen as equally perverse for a second group (generators).

Overall, we are disappointed by this initial methodologies consultation and the distinct lack of information that will inevitably lead to instability within the market. We do not support either scenario as we suggest both tilt the playing field too far. We are disheartened to realise that we are now in a worse position to last year, with no clear picture of the level of TNUoS charges for some time to come. We suggest that given the length of notice of the introduction of this regime and the fundamental changes that would result, the industry is seriously lacking in any detailed information, and there is still a significant lack of clarity in some areas.

We hope these comments have been useful, please do not hesitate to contact me if you have any questions.

Yours sincerely,

Sarah Owen
Commercial Manger
Centrica Energy

A **centrica** business

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD