

**NGC Charging Methodology Consultation  
Corus Submission October 2003**

1. General

We are uneasy about the extent of change being proposed, particularly at this juncture with BETTA potentially due only a year after NGC's current proposals would be implemented (unless vetoed by OFGEM). This stems in part from the unfortunate wording in the licence which requires NGC to keep the Use of System Charging Methodology *at all time* under review. Threats to the triad system of charging seem to have become an annual event, creating much uncertainty for consumers.

2. CCM-M-07

In general, we favour the move of assets from connection to infrastructure. This is because the method of cost-recovery in respect of infrastructure is via the triads which enables end-users, who are prepared to load manage, to influence system margins at peak periods, thereby enhancing security of supply for all consumers. This benefit overrides any reservations that consultees may have about potential winners and losers under the plugs proposal, e.g., different age assets, generation spurs, shared/non-shared assets, etc.

In respect of the potential discrimination of moving shared but not non-shared connection assets into infrastructure, we referred to this in our earlier response but remain unconvinced by NGC's rebuttal in its final consultation document. One of the reasons stated for not allowing a user or NGC to deem assets as shareable is that NGC has defined the boundary change to exclude such possibility. This circular argument has a catch-22 ring to it! Moreover, the proposed changes to the Statement of Connection Charging Methodology, Section 1.6, supports our desire to be able to deem assets to be shareable – "In general, connection assets are now defined as those assets solely required to connect an individual user to the Transmission System, which are not and *could not be shared* by any other connected party." Clearly the wording which we have italicised is forward looking and unless NGC can show that for all time an asset could never be shared, we believe users should be entitled to deem the assets shareable.

The other main issue for us is to ensure that DNOs pass through the reduction in connection charges to embedded customers fully, ensuring that EHV customers are not discriminated against as a result of falling outside the scope of DNO price controls. We realise that this beyond the vires of NGC, but NGC could boost transparency by publishing in its final modification proposals to OFGEM the saving each DNO (by name) would see by the fall in its connection charges. As NGC exit charges can be passed through in full in D-U-o-S charges there is no

reason why the DNOs could possibly object to this. In addition, OFGEM should elicit from each DNO a clear and comprehensive statement of how the DNO intends to allocate the reduced charges to each category of consumer.

3. UoSCM-M-10

We do not have a strong view on this proposed modification but would observe that the effect is a rebalancing of locational signals. Demand in the south and west would now have a reduced incentive to locate (or relocate) further north. Ironically, this runs counter to BSC Modification 82, which is designed to have the opposite effect through the introduction of zonal losses.

4. UoSCM-M-11

We opposed the introduction of a within year charge (WYC) in our response to the initial consultation and subsequent concerns about security of supply have reinforced our view that it would be foolhardy to dilute the triad signal by the introduction of a WYC.

The reasons why we believe that a WYC should not be introduced are

- We are not convinced by NGC's cost reflectivity arguments. There is an air of vagueness and subjectivity about the level of investment to meet off-peak requirements. Recovering these alleged costs by a unit charge applicable to the day-time throughout the year is hardly cost-reflective. Moreover, the use of a unit charge is inappropriate for recovering capacity costs.
- NGC already collects significant revenue from NHH demand by a unit charge. NGC's counter-arguments in the consultation paper on this seem self-serving.
- There will undoubtedly be significant extra costs on suppliers resulting from changing billing and pricing models to introduce a new element of charge. Unless a customer has currently a tariff which exactly matches 0700-1900, new STOD slots will have to be produced to accommodate the WYC. Compared to the delivered all-in cost (upwards of £20 per MWh), implementing change for the value of an average 19p/MWh is total disproportionate.
- The imposition of further costs on suppliers will not facilitate competition in supply. In fact just the opposite will occur; further barriers to entry will be created, and market exit hastened.
- Customers such as Corus who have bid analysis models will also be faced with extra cost as a result of incorporating a WYC into the models.

- We are surprised that NGC argues that reducing the triad signal by £1.11 per kW would not affect incentives to load manage. Perhaps it no longer believes in the effect of marginal costs and prices. The reality is that users assess the saving by avoiding the triad against the cost to their business of not consuming electricity. Clearly an available cost of £1.11 per kW would swing the balance in favour of new or more triad avoidance load management for some users.
- We are also unimpressed by the argument that the WYC would create a small incentive to reduce demand year round. No consumer will load manage to avoid a charge of 34p per MWh when it applies for 4380 hours in the year.

5. Overall Conclusion

We support	CCM-M-07
We are neutral on	UoSCM-M-10
We oppose	UoSCM-M-11

Viewing the interactions of these modifications, because security of supply would be adversely affected to an even greater extent, the worst outcome would be implementation of UoSCM-M-11 without CCM-M-07.

10<sup>th</sup> October 2003