

Questionnaire

Name of Respondent:	Stephen Moore
Company:	EDF Energy
Responding on behalf of:	EDF Energy (Cottam Power) Ltd, EDF Energy (Services) Ltd, EDF Energy (Sutton Bridge Power) Ltd, Jade Power Generation Ltd, London Energy plc, SEEBOARD Energy Ltd, West Burton Ltd

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by "squeezing" differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify)
	<p><i>Altering the demand charging methodology in one or two regions (Options i, ii, iii) is not a proportionate response to the problem of negative demand charges which occur because the DCLF model is working as it is designed to do. Adjusting tariff differentials to ensure that demand tariffs are positive (option iv) seems to be an arbitrary solution as the scope of the adjustment is likely to vary from year to year.</i></p> <p><i>It would be far more logical for NGC to set out a clear timetable to move the G:D ratio to 0:100 which would remove negative demand charges as well as satisfying the expressed desire of the European Commission to harmonise transmission charges.</i></p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	No
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>Negative demand charges are in fact a cost to embedded generators so changing the G:D split recreates this benefit in the north of Scotland. However, having a large disparity between high transmission charges and a positive payment for an embedded generator in close geographical, but not electrical, proximity is likely to incentivise developers to opt for distribution-connection solely for financial reasons.</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>Yes, any solution should be robust enough to prevent negative demand charges within the current transmission pricing methodology.</i>
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>We price some contracts 2-3 years ahead so a clearly signposted and phased move to G=0 would be very useful. At the very least we would want to see a firm view of the methodology six months before the start of each charging year.</i>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not, why not?
	<i>Yes, setting a clear timetable for moving towards G=0 reduces TNUoS uncertainty and allows suppliers to adjust contracts accordingly. We would suggest phased changes over a period of 3-5 years would minimise any adverse impacts.</i>

Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	No.
Q.9	Which option would you least prefer and why?
	<p><i>iii) Charging for HH and NHH demand over 24 hours is a fundamental change to the TNUoS methodology. Whilst the idea in itself has merit and is worthy of further consideration, this should only be considered as part of a GB wide replacement of TRIAD charging for demand not just in one or two zones.</i></p>
Q.10	Please provide any additional comments you have.
	<p><i>If the G:D split does move towards 100% demand charging on average then it will be necessary for NGC to consider whether the existing charging methodology is appropriate for inelastic demand customers in the longer term.</i></p> <p><i>Currently the charging methodologies do not accurately reflect the fact that generation and demand impose separate costs on the network, but new generation locating in Scotland serves to increase the locational differentials for both generation and demand. Therefore the large influx of wind generation in Scotland will impose additional costs on demand customers in the South of England even before any change to the G:D split.</i></p> <p><i>For example if 1 GW of new wind generation is sited in Scotland in contradiction of the locational signals from TNUoS charges then this increases the locational differential within the GB system meaning that generators in the north and customers in the south pay more. However those customers will have been unable to influence the location of that generation.</i></p> <p><i>Therefore we believe that in the longer-term there is scope to review the demand methodology to ensure that immobile customers in the south of England do not pay the price of increased wind generation in Scotland. In addition, it would be sensible to make such a review more comprehensive and include in it the effectiveness of the TRIAD methodology.</i></p>

Questionnaire

Name of Respondent:	
Company:	
Responding on behalf of:	

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Gaz de France ESS’ preferred option would be vi) Other. We believe that the current methodology of calculation of Demand Side TNUoS with collaring of the negative demand charge and a re-allocation is correct. This methodology retains the key system security drivers by providing an incentive to reduce demand take at times of likely high system demand.</i></p>
Q.2	<p>Do you believe that there are system security implications in your preferred choice in Q.1?</p>
	<p><i>We believe that the system security signals are retained and that the Demand Side will continue to provide system security to NGT via load management at times of high system demand (i.e. likely Triad).</i></p> <p><i>Further we believe that options ii and iii would remove this system security driver and mean that peak demand would increase, leading to a need for additional generation, and infrastructure. This has both environmental and cost effects, leading to greater costs for all users in areas from fuel prices to TNUoS charges.</i></p> <p><i>In terms of iv, we do not believe this offers appropriate transparency.</i></p>
Q.3	<p>What do you believe is the impact on embedded generation from your preferred choice from Q.1?</p>
	<p><i>There would be no effect on Embedded Generation. Please also note that encouraging embedded generation to run at system peaks (current methodology) will assist system security. Removal of this incentive will have the same effect as removal of demand management (above).</i></p>
Q.4	<p>Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?</p>
	<p><i>Future changes to pricing are unknown and any methodology may need to be adapted to take into account new pricing methodologies.</i></p>

Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<p><i>The key issues for a supplier on any change of methodology for a supplier are:</i></p> <ul style="list-style-type: none"> • <i>Contracts – these have been struck ahead and may include a fixed value of TNUoS. These could be for up to a period of 3 years but are typically one or two years in duration.</i> • <i>Billing – systems need to be changed to accommodate any new methodology. This takes time and is expensive.</i> • <i>Customers – need to be contacted and informed of any changes, regardless of if the contract passes through TNUoS or not.</i> <p><i>On balance we believe at least 12 months is required. Also a phased change should be considered.</i></p>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<p><i>Yes – phased changes give suppliers opportunity to manage risk and potentially reduce exposure to large swings in charges.</i></p>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<p><i>A move towards commoditisation could require expensive system changes to allow any supplier to bill this charge. Any change in methodology will have costs associated with calculation of charges and communication of the changes to customers.</i></p>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<p><i>NGT should consider carefully how and when they would calculate the charges and release them. In addition the credit positions created for both suppliers, customers and NGT should be considered.</i></p>
Q.9	Which option would you least prefer and why?
	<p><i>Option iii.</i></p> <ul style="list-style-type: none"> • <i>Removes security of supply driver</i> • <i>Difficult to see how it will remove negative charges unless combined with one of the other options</i> • <i>Costly to implement</i>
Q.10	Please provide any additional comments you have.

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Questionnaire – Negative Demand Charges

Name of Respondent:	Paul Jones
Company:	E.ON UK
Responding on behalf of:	E.ON UK

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>v) The criticism of the original solution was that it reduced cost reflectivity presumably because the relative locational signal in the Hydro Electric area was distorted. If this distortion of differentials is to be avoided with an alternative method then iv) must be discounted. Option i) is no solution at all. Options ii) and iii) would complicate suppliers’ contracts and processes for forecasting and tariff setting by treating zone 1 differently from other zones. Option v) would retain differentials and would be more practical to implement. However, sufficient notice would be required so that the market can take account of the changes in charges.</i></p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	No.
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>On average it will increase the level of TNUoS embedded benefit.</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>If possible. However, if a change in methodology makes the chosen solution redundant in future then this can be addressed at the same time.</i>
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>In order to account for the changes in charges in tariffs and contracts suppliers should be notified of the change by November (assuming an April implementation).</i>

Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<i>Phased implementation would depend on the scale of increase. If the move was to a 100:0 split then a phased implementation would appear very appropriate. A smaller change may not require phasing. Appropriate notice is more important.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>As mentioned above ii) and iii) would have the highest impact on processes. The others should not be too problematic from a process or system perspective.</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>No.</i>
Q.9	Which option would you least prefer and why?
	<i>Option iv), as the artificial reduction of differentials is a wholly inappropriate response to the issue. Options ii) and iii) come a very close second to last.</i>
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	
Company:	
Responding on behalf of:	

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p>(iv) and (v) We believe the differentials are overstated in the model, and that correct selection of model parameters would significantly reduce the risk of negative demand charges. Moving towards a $g=0$ on average would further reduce or eliminate the risk.</p>
Q.2	<p>Do you believe that there are system security implications in your preferred choice in Q.1?</p>
	<p>We do not believe there are any system security implications with this approach.</p>
Q.3	<p>What do you believe is the impact on embedded generation from your preferred choice from Q.1?</p>
	<p>Embedded generation would continue to be incentivised to generate at system peak, which would not be the case if demand charges were negative.</p>
Q.4	<p>Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?</p>
	<p>We believe that negative demand charges represent a perverse incentive, and should as a principle be designed out of the tariff model by the selection of suitable parameters.</p>
Q.5	<p>What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?</p>
	<p>Any changes to the tariff methodology should be signalled as far in advance as possible to allow Suppliers to take it into account in setting tariffs. In practice this should be a minimum of six months.</p>

Q.6	Do you believe a phased implementation is appropriate? If so why, if not, why not?
	This depends on the materiality of any change in methodology. Moving to G=0, for example might require phasing over say 3 years and be well signalled to allow all market participants to take it into account.
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	If the chosen option involved introducing negative demand charges, we would have to alter systems to ensure maximum benefit from the arrangements by increasing demand at triad times.
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
Q.9	Which option would you least prefer and why?
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Simon Lord
Company:	First Hydro Company
Responding on behalf of:	

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Option v-2 A G/D split of 0/100 %.</i></p> <p><i>This will remove the negative demand issue as well as moving the G/D split closer to European harmonisation with little impact on customers if implemented in a planned way.</i></p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	<i>No</i>
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>This should encourage embedded generation as the triad benefit would be greater.</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>It should be robust against credible price changes over the next few years. Option (v-2) gives better head room than others.</i>
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>The current period of Notice (two months) would be adequate although earlier notice of significant change would be preferred.</i>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<i>We believe that implementation should be phased over two years as this will give the market time to factor into contract rounds the change in tariff</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?

	<i>None</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>No</i>
Q.9	Which option would you least prefer and why?
	<i>Option (iii)</i> <i>This would remove the triad, which currently forms the basis of demand charging. The effect of this would be to discourage embedded generation and remove the incentive to reduce demand over the triad. This could increase peak demand and presents problems with operating the system.</i>
Q.10	Please provide any additional comments you have.
	<i>We believe that option v of moving to a G/D split of 0/100 over a couple of years would remove Negative demand charges without significant effect on customers as long as the change was signalled in advance.</i>

Questionnaire

Name of Respondent:	Mike Harrison
Company:	ScottishPower Energy Management Limited
Responding on behalf of:	ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, CRE Energy Ltd

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Our preference is for Option (v) with a G:D split of 0:100. However, recognising that this solution does not preclude the re-appearance of negative demand charges in the future, we believe that this should be supplemented by squeezing of both generation and demand differentials under option (iv) to ensure that negative demand charges cannot be produced even in the circumstances underlying illustration (v)-3.</i></p> <p><i>Our preference stems from our belief that negative demand charges, like negative generation charges, cannot be cost-reflective since all users impose costs on the network.</i></p>
Q.2	<p>Do you believe that there are system security implications in your preferred choice in Q.1?</p>
	<p><i>The reduction of excessive generation charges could increase system security by reducing the risk of inefficient plant closure decisions.</i></p>
Q.3	<p>What do you believe is the impact on embedded generation from your preferred choice from Q.1?</p>
	<p><i>The increased demand charges under option (v) will increase the benefits available to embedded generation.</i></p> <p><i>Squeezing of tariff differentials under option (iv) should apply equally to generation and demand tariffs to avoid distorting the treatment of embedded generation relative to directly connected generation.</i></p>
Q.4	<p>Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?</p>
	<p><i>Within the context of the existing ICRP methodology the solution should be robust against the natural development of the generation/demand background and the parameters of the methodology.</i></p>
Q.5	<p>What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?</p>
	<p><i>This will depend on the chosen solution. 3 months notice would be required to accommodate negative demand charges (see Q7 below).</i></p>

Q.6	Do you believe a phased implementation is appropriate? If so why, if not, why not?
	<i>We have previously suggested that NGC should phase the transition to a G:D split of 0:100 over five years.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>Some modifications would be required to billing systems if negative demand charges were to be introduced.</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>Not at present.</i>
Q.9	Which option would you least prefer and why?
	<i>As noted above we do not believe that negative charges are cost reflective. We would not wish to see one of options (i) to (iii) implemented.</i>
Q.10	Please provide any additional comments you have.
	<i>We believe that the occurrence of negative demand charges is an indication that the parameters of the ICRP model have been set at levels which over-state the locational differentials, and that this problem can be overcome by the adoption of more realistic assumptions. Notwithstanding this, we believe NGC should commit to a programme of phased reductions in the generators' share of TNUoS charges with the target of eliminating generator charges within five years.</i>

Questionnaire

Name of Respondent:	Sarah Owen
Company:	Centrica
Responding on behalf of:	

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Either of options i) to iv) although we believe that any change to the charging base for HH demand will need to be subject to further investigation. We do not support the alteration of the G/D split. We believe there are significant industry implications to altering the ratios especially to demand customers. We further believe that any reductions to the generation TNUoS tariffs are unlikely to be passed through to demand customers via a positive reduction in energy prices. This also results in a windfall gain to generators.</i></p>
Q.2	<p>Do you believe that there are system security implications in your preferred choice in Q.1?</p>
	<p><i>As stated above, we believe that any proposed change to the HH charging base would need to be fully investigated. Notwithstanding, we DO not support the continuation of the TRAID in the current state, as we believe this results in non-equitable charging. We support the reduction of charges for those that can actively manage their loads, but do not support the avoidance of all TNUoS charges, obviously this is a fine balance, as the discount has to be large enough to provoke the desired reaction.</i></p>
Q.3	<p>What do you believe is the impact on embedded generation from your preferred choice from Q.1?</p>
	<p><i>We do not believe there is an impact on embedded generators from the options supported in Q1.</i></p>
Q.4	<p>Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?</p>
	<p><i>We do not believe that it should be robust against all possible pricing changes, however it should be relatively robust. We would support a delay in finding an enduring solution through further work in changing the base for HH charges, rather than a weaker solution that could be implemented under a shorter timescale.</i></p>
Q.5	<p>What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?</p>
	<p><i>This answer has to be that it depends on the solution. If the solution has a significant effect on demand customers, i.e. changing the G/D split then the notice should be longer than if other options are adopted.</i></p>
Q.6	<p>Do you believe a phased implementation is appropriate? If so why, if not, why</p>

	not?
	<i>No, there is no precedence for a phased implementation in recent years, and any phasing ultimately means that there is a cost subsidy.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>There is a greater impact on systems and processes on changing the base for the HH charges.</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>Only the ones already stated.</i>
Q.9	Which option would you least prefer and why?
	<i>All versions of option v). We do not support the alteration of the generation/demand split. We still believe that this is an inappropriate reaction to negative demand changes and causes additional costs to be incurred by demand as we have previously stated we do not believe that energy prices are unlikely to reduce by a similar value to the reduced TNUoS costs for generators.</i>
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Stefan Leedham
Company:	Chemical Industries Association
Responding on behalf of:	

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>The CIA believes Option 1 provides the best solution to the issue of negative demand charges. We believe that Triads are an effective and efficient means of encouraging industry to reduce consumption, whilst encouraging generators to increase production, when demand is high. We therefore believe that only options maintaining the triad should be considered. Furthermore, we believe the current methodology works efficiently and effectively. Our members note that negative demand charges are present in Scotland and that a simple solution should be proposed to overcome this issue.</i></p> <p><i>We do not agree with amending the G:D split as proposed in option (v), as we believe that it is important to ensure generation receives locational signals from transmission charges.</i></p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	<i>The existence of triads is a simple and well-understood process by customers and ensures the secure and safe operation of the transmission system.</i>
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>The CIA believes that our preferences expressed in Q1 should not have a negative impact on embedded generation.</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>The CIA firmly believes that any solution to negative demand charges should be robust against all likely and foreseeable future pricing changes. We do not believe it is necessary to formulate a solution that is robust against any possible future pricing changes, however unlikely, as this will add unnecessary cost and complexity that will negatively impact on transparency. Ofgem is currently encouraging improved transparency in distribution charging, and this projects focuses on the importance of simplicity and transparency when addressing charging issues.</i>
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>Whilst the CIA is unable to comment on the time needed to implement an alternative method, we would call on both Transco and Ofgem to ensure that an adequate notice for any change is provided to consumers. At a time of rising energy prices it is essential that customers be informed of any charging alterations as soon as reasonably practical.</i>

Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<i>The CIA would need to be able to review the level of change that the proposed methodology would bring to consumers prices. If the increase in charges were relatively significant we would call for a phased implementation to ensure that consumers do not face a sudden step change in charges.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>The CIA is unable to comment on this question</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>The CIA is unable to comment on this question</i>
Q.9	Which option would you least prefer and why?
	<i>The CIA is of the view that all the options removing the Triad are equally undesirable. As previously stated we believe the Triads provide an effective and efficient method of reducing demand and increasing supply when demand is high.</i>
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Hugh Mortimer
Company:	BOC Gases
Responding on behalf of:	BOC Gases

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p>vi) Other. The current methodology of calculation of Demand Side TNUoS with collaring of the negative demand charge and a re-allocation of the negative amount is best. This methodology keeps vital system security incentives by providing an incentive to reduce demand take at times of likely high system demand.</p>
Q.2	<p>Do you believe that there are system security implications in your preferred choice in Q.1?</p>
	<p>This keeps system security incentives and that the Demand Side will continue to provide system security to NGT via load management at times of high system demand (i.e. likely Triad). Further options ii and iii would remove this system security driver and mean that peak demand would increase, leading to a need for additional generation, and infrastructure. This has both environmental and cost effects, leading to greater costs for all users in areas from fuel prices to TNUoS charges. Options iv and v, are not clear and in addition v was originally proposed and then rejected and we believe it is unfair to change the burden of TNUoS applied to the Demand Side.</p>
Q.3	<p>What do you believe is the impact on embedded generation from your preferred choice from Q.1?</p>
	<p>I think there would be any.</p>
Q.4	<p>Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?</p>
	<p><i>I don't know what changes there may be in the future so it is difficult to judge.</i></p>

Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>BOC would like at least 12 months notice to feed into budget and business planning processes.</i>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<i>If implemented then changes should be phased in for budget and business planning processes.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>If the triad incentives are removed costs will go up and there will be less incentive to load manage during peak demand periods.</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>All changes seem to lead to greater complexity which is costly and unwelcome.</i>
Q.9	Which option would you least prefer and why?
	Option iii) this option removes security of supply incentive and it is very difficult to see how it will remove negative charges unless combined with one of the other options. It will also put up BOC's costs.
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Jim Hempseed
Company:	Air Products PLC
Responding on behalf of:	Air Products PLC

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>i) The existing triad charge gives a simple and well understood incentive for manufacturing industry (all HH) to load manage when a peak country demand is forecast. Diluting this incentive will result in most demand side (potentially 1GW) not load shedding resulting in increased costs for all.</i></p>
Q.2	<p>Do you believe that there are system security implications in your preferred choice in Q.1?</p>
	<p><i>No, the system margin is a healthy 22% based on historical load shedding at the peak and import of 2GW from France.</i></p>
Q.3	<p>What do you believe is the impact on embedded generation from your preferred choice from Q.1?</p>
	<p><i>No change, there should be a larger incentive for embedded generation where it helps the system</i></p>
Q.4	<p>Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?</p>
	<p><i>It should be cost reflective</i></p>
Q.5	<p>What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?</p>
	<p><i>We would require at least 1 year’s notice as our budget for the next year is set in the previous June.</i></p>

Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<i>If change is justified then it should be phased over 5 years to minimise the impact.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>We would not load manage in the winter unless option i) is retained</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>No</i>
Q.9	Which option would you least prefer and why?
	<i>(v) would increase demand side cost the most for no obvious benefit</i>
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Wayne Tipping
Company:	Slough Energy Supplies Limited
Responding on behalf of:	Slough Energy Supplies Limited

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><u>v) Removal of negative demand tariffs by altering the G:D split</u></p> <ul style="list-style-type: none"> • <i>Negative Triad will produce perverse incentives threatening security of supply.</i> • <i>Eliminating Triad will reduce incentives and economic signals to moderate use-of-system, which is inefficient.</i> • <i>Squeezing differentials is not justified as it reduces efficient economic signals</i> • <i>Adjusting the generation demand split is rational because it also puts the cost of network provision directly onto demand with targeted locational signals rather than putting the cost indirectly through the energy price without the locational signals.</i>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	<i>No</i>
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>Retains targeted locational incentives and economic signals</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>Yes</i>
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>If a choice is made which has implications for embedded generation’s interaction with current Triad charging sufficient time must be given for the associated rule changes to be put through.</i>

Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	<p><i>Yes.</i></p> <p><i>While integrated players lose on one side they gain on the other, leaving them neutral, while supplies only lose.</i></p>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>None</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>No</i>
Q.9	Which option would you least prefer and why?
	<p><i><u>iv) Removal of negative demand tariffs by “squeezing” differentials.</u></i></p> <p><i>The Differential price signal to generation and demand across the country should be driven by the wish to give efficient incentives with reference to transmission investment costs. It is inappropriate to distort these differentials purely in order to remove negative demand charges.</i></p>
Q.10	Please provide any additional comments you have.
	<i>In line with European electricity integration policy, a move towards a GD split of 0:100 is appropriate.</i>

TRANSMISSION NETWORK USE OF SYSTEM CHARGES QUESTIONNAIRE ON NEGATIVE DEMAND CHARGES

May 2005

Response by Corus UK Limited

Corus is concerned that new remedies to cure the alleged problem of negative demand charges are likely to be worse than the “disease” itself. It seems to us that the temporary arrangements in place for 2005/6 are worthy of extension to 2006/7 and beyond because they avoid a negative demand charge in N. Scotland and that all the suggested alternatives have downsides for customers.

We find it extraordinary that NGC has not explicitly offered the status quo as one of the options. This smacks of change for the sake of change, creating more uncertainty for end-users who seem to be subjected to significant change in transmission charging almost on an annual basis.

We are also concerned at the suggestion that HH triad charging in £ per kW should be replaced by commoditised charging bases of 1600-1900, or even worse, over 24 hours per day. Although it appears that this is only being proposed here for zones where a negative demand charge would otherwise arise, we believe it would then be used subsequently as a precedent to change the current basis of triad charging in positive demand charge zones in the rest of GB. There have been a number of attempts in recent years to abandon or dilute the present triad charging system which end-users have resisted on the grounds that system security would be adversely affected and the most common and readily understood demand-side response would be lost. For this reason we would oppose options (ii) and (iii).

By far the worst option is (v) and within that (v)-3 is beyond the pale. It is outrageous to penalise customers even more than they already are by moving the G:D split from 27:73 to a more discriminatory level. Rather than consulting on the relatively small issue of negative demand charges (which would only potentially affect some 500MW of HH demand in N. Scotland), NGC should be proposing a move to an equitable G:D split of 50:50. As we said in our response to the BETTA transmission charging consultations, skewing the G:D split even more in the favour of G is a disproportionate response to the perceived problem.

The problem with option (i) is that it leaves a negative demand charge in N. Scotland, which is presumably what NGC is trying to avoid and increases the charges elsewhere by £0.04 per kW. As for Option (iv), all this seems to achieve is to increase the N. Scotland charge by £0.03 per kW whilst exposing other zones to considerable tariff disturbance. There are winners and losers but a major loser would be the Northern zone, which has already seen a huge increase in triad charges over recent years.

Our conclusion is that the present arrangement for 2005/6 is the only sensible option to proceed for future years. Whether this is robust against all possible future changes (Q4) we cannot say. Users cannot predict what transmission charging rabbit NGC might pull out of the hat, so the question is hypothetical. The other advantages of sticking with present arrangements are that it would not require a minimum notice for implementation (Q5), nor phasing (Q6).

Negative Demand Tariff Questionnaire

Name of Respondent:	Shona Watt
Company:	RWE npower
Responding on behalf of:	RWETrading, RWE npower, npower ltd, npower commercial gas, Npower Direct, npower northern ltd, npower northern supply ltd, npower yorkshire ltd, npower yorkshire supply ltd, npower cogen ltd, npower cogen trading ltd

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Negative Demand Tariffs will be referred to as NDTs throughout this response.</i></p> <p>Option i) has effectively already been considered and rejected by NGC as it was considered that the combination of the existing HH charging base and NDTs would pose a threat to system security. RWE npower firmly believe that this is best addressed by changing the HH charging base, rather than the NDTs themselves.</p> <p>Options ii) and iii) would reduce the incentive for maximum demand to be taken over the highest system demand periods. However, spreading the charging base over as large a number of periods as in options ii) or iii) would make the charging base far less reflective of the drivers of TNUoS costs, which are predominantly related to peak conditions.</p> <p>The optimal charging base for negative demand zones should be the most accurate capacity proxy that does not create undesirable incentives. This could be an average of the maximum demand over a greater number of periods (perhaps around 20), with the appropriate number determined following further analysis. Alternatively, it may be possible to define a more accurate capacity proxy, perhaps related to individual maximum demands rather than total system peak demands. Either option would be consistent with the generation charging base, where a different capacity proxy is used for negative and positive demand zones.</p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?

	The capacity proxy chosen should reduce the incentive for maximum demand to be taken over the highest system demand periods to avoid the system security implications of option i).
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	A HH charging base that is spread over a greater number of periods would reduce any incentive for embedded generation to turn down at peak. It may be possible to define an alternative capacity proxy that also avoids this incentive.
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	Yes, to avoid unnecessary future instability in the methodology.
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	The minimum notice period would be driven mainly by required changes in systems and processes. It is anticipated that a minimum 6 month notice period would be required.
Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	No. Phasing acts as a cross-subsidy by delaying improvements to the cost-reflectivity of the methodology.
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	Any change to the charging base will have an impact on our systems and processes. The extent of the impact would depend on the exact charging base chosen.
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	Since option v) would involve a dramatic step-change increase in the revenues to be recovered from demand, a longer notice period of the change would be required. A notice period of at least a year may be appropriate.
Q.9	Which option would you least prefer and why?
	Option iv) is the worst. Artificially 'squeezing' the tariff differentials to remove NDTs would greatly distort the locational signals provided by the TNUoS tariffs.
Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Vic Danks
Company:	AES Indian Queens Power Ltd
Responding on behalf of:	AES Indian Queens Power Ltd

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<i>Negative triad in Scotland are bizarre/ loss of triad benefit for embedded generation if there is an economic basis for current differentials then squeezing cannot be justified, hence our choice of V</i>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	<i>Negative triad will produce perverse incentives threatening security and supply</i>
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>Will continue to receive triad benefit</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>The longer the better to allow business' to budget on a longer term basis – minimum 5 years</i>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not, why not?
	<i>See Q5, but need notice of a lead in</i>

Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>Unknown at this time</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>Unknown at this time</i>
Q.9	Which option would you least prefer and why?
	<i>v) generation if there is an economic basis for current differentials then squeezing cannot be justified,</i>
Q.10	Please provide any additional comments you have.

Please note that responses will not be treated as confidential unless so marked
Questionnaire

Name of Respondent:	Gayle Cairns
Company:	BE Power and Energy Trading
Responding on behalf of:	British Energy Group

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p>Capacity is the overwhelming driver of costs on the transmission network. The network charging methodology is in place to apportion network costs and to give economic signals to users. Negative demand tariffs create a perverse incentive on demand to consume at times of system peak in cases i) and ii). They may also encourage embedded generation to switch off at times of peak. In addition to these concerns, Option iii) uses commoditised charging which cannot be justified against any notion of cost-reflectivity when the underlying costs are fundamentally driven by capacity. Option iv) removes negative demand charges, but does so by squeezing the N-S differentials. This is arbitrary and discriminatory, as not all users will be affected equally. There is also the difficulty that each year a 'squeeze factor' would need to be determined to avoid negative tariffs and there would be no justification for the level at which it was set.</p> <p>Altering the G:D split is consistent with the application of the economic signals that the methodology is designed to give. This is also consistent with European Tariff Harmonisation. National Grid has given an example of a scenario where changing the G:D split does not remove negative demand tariffs but this is because the model produces negative charges as part of the way it calculates. This will always be the case unless you alter the model.</p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	No. On the contrary, there are system security issues in allowing negative demand tariffs to occur but not in preventing them by altering the G:D split.
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	Positive. The perverse incentive of shutting down at system peak is removed if

	negative demand tariffs are removed.
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	It is impossible to predict whether any solution will be robust against all possible, or even all realistic future changes. Deep connection charges or postage stamp demand tariffs would be a robust solution. They also could be changed to give a situation with negative demand tariffs.
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	The voluntary charge setting timetable published by National Grid would be appropriate for this type of change. This is a large change for industry, especially suppliers and would need to be confirmed as a methodology change by the end of November proceeding the implementation year at the minimum.
Q.6	Do you believe a phased implementation is appropriate? If so why, if not , why not?
	Given the impact of the change, it might be appropriate to implement it via an incremental implementation. This should not be confused with phasing. Phasing would be looking at the impact of the change on parties' costs and altering the magnitude of change and for that reason is not acceptable. Alteration of the G:D split could be achieved in an incremental change of 13.5% from G to D each year for two years. This would be appropriate to allow time for the cost base to flow properly from the wholesale price, although notice of the change in November of the year prior to the charges in April would be an acceptable minimum notice.
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	There would be a systems impact from options ii) and iii) that would require a minimum of six months to a year to implement and could have costs between £50 and £100 k.
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
Q.9	Which option would you least prefer and why?
	Options i), ii), iii) are equally the worst options for the reasons stated in Q1.

Q.10	Please provide any additional comments you have.

Questionnaire

Name of Respondent:	Rekha Patel
Company:	ConocoPhillips
Responding on behalf of:	Immingham CHP

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Option 5. More specifically we support 5-2 as further defined in the supporting information. This is most consistent with the cost reflectivity objective. While the net allocation to generators would remain zero, locational differentials would also be maintained.</i></p> <p><i>Changing the split will also enable earlier alignment with charging policies adopted by GB’s neighbours.</i></p> <p><i>Given the imperfect competition in the wholesale market, it would also reduce the size of a distortion in the generation market as only the scale players have certainty that they can pass through the TNUoS charges to their customers.</i></p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	<i>Yes – there should be a positive effect, as it should sharpen triad “avoidance”.</i>
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<p><i>There should be a small positive impact all other things being equal because:</i></p> <ul style="list-style-type: none"> ▪ <i>The charge on embedded generators overall paying TNUoS will be reduced (or eliminated under 5-2)</i> ▪ <i>The value of embedded benefits should increase.</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>To the extent achievable. Option 5 could also be seen as a staging post consistent with the likely eventual elimination of the generator charge under a converged set of charging arrangements across Europe. In the case of option 5-2, the shift in net terms would be immediate.</i>

Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>Ideally we would have four months or more notice so we can incorporate the change in our business planning processes and reflect the cost change in our annual contract offers.</i>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not, why not?
	<i>No, the change should be implemented in one go. It is important that developers see any change likely to impact on their costs and on embedded benefits in one go. Such an approach will help mitigate the regulatory risk arising from further change.</i>
Q.7	What are the impact on the systems and processes in your organisation based on the identified options?
	<i>The systems and process impacts are minimal.</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>No.</i>
Q.9	Which option would you least prefer and why?
	<i>We do not like options 1 to 3. We do not believe negative demand charges are sustainable in the low-carbon environment. Option 4 is inferior to option 5 as it would distort the equal and opposite effect principle inherent in the current charging methodology and dilute incentives at the margin for triad avoidance which could impinge security of supply.</i>
Q.10	Please provide any additional comments you have.
	<i>We support in principle option 5-2, although we note that the information provided at this stage in the supporting information seems to be for illustrative purposes. For the avoidance of doubt, ICHP believes the 0:100 net split from 1 April 2006 is appropriate and believes this approach is most consistent with the relevant licence objectives. It deals cleanly with the problem of negative demand charges without undermining locational differentials and the general cost reflectivity of the charging methodology.</i>

Questionnaire

Name of Respondent:	Simon Lord
Company:	Rugeley Power Ltd and Deeside Power Development Company Ltd
Responding on behalf of:	

Q.1	<p>Given the following choice of options, which would be your preference?</p> <ul style="list-style-type: none"> i) Negative demand tariffs with existing charging bases, ii) Negative demand tariffs with a wider charging base for HH demand, iii) Negative demand tariffs with a full commoditised charging base, iv) Removal of negative demand tariffs by “squeezing” differentials, v) Removal of negative demand tariffs by altering the G:D split, or vi) Other (please specify) <p>Please specify your reasoning behind your decision.</p>
	<p><i>Option v-2 A G/D split of 0/100 %.</i></p> <p><i>This will remove the negative demand issue as well as moving the G/D split closer to European harmonisation with little impact on customers if implemented in a planned way.</i></p>
Q.2	Do you believe that there are system security implications in your preferred choice in Q.1?
	<i>No</i>
Q.3	What do you believe is the impact on embedded generation from your preferred choice from Q.1?
	<i>This should encourage embedded generation as the triad benefit would be greater.</i>
Q.4	Do you believe that a solution for negative demand charges should be robust against all possible future pricing changes?
	<i>It should be robust against credible price changes over the next few years. Option (v-2) gives better head room than others.</i>
Q.5	What would be the minimum notice you would require to implement an alternative method for addressing negative demand charges, and why?
	<i>The current period of Notice (two months) would be adequate although earlier notice of significant change would be preferred.</i>
Q.6	Do you believe a phased implementation is appropriate? If so why, if not, why not?
	<i>We believe that implementation should be phased over two years as this will give the market time to factor into contract rounds the change in tariff</i>
Q.7	What are the impact on the systems and processes in your organisation based on

	the identified options?
	<i>None</i>
Q.8	Do you have any wider concerns regarding contractual arrangements or practical considerations of any of the modifications discussed above?
	<i>No</i>
Q.9	Which option would you least prefer and why?
	<i>Option (iii)</i> <i>This would remove the triad, which currently forms the basis of demand charging. The effect of this would be to discourage embedded generation and remove the incentive to reduce demand over the triad. This could increase peak demand and presents problems with operating the system.</i>
Q.10	Please provide any additional comments you have.
	<i>We believe that option v of moving to a G/D split of 0/100 over a couple of years would remove Negative demand charges without significant effect on customers as long as the change was signalled in advance.</i>