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Gaz de France Energy Supply Solutions – Response to UoSCM-M-11.

Dear Alex

Thank you for the opportunity to respond to the consultation on National Grid Transco's Charging Methodologies. I have a number of points Gaz de France Energy Supply Solutions would like to raise, which I have addressed below.

The key part of this modification proposal is to change the existing method of TNUoS collection so that 10% of TNUoS will be collected via a flat locational charge – introduction of a within year tariff (WYT).

Comments in Relation to NGT licence conditions

It is unclear how a WYT will increase and improve competition for the generation, transmission and supply of energy. The potential for discrimination against a class of end-user exists under the WYT proposals because differing methods of revenue recovery could potentially shift the payment of TNUoS from one class of user to another that may not fairly reflect their impact on the system. For example changes in TNUoS caused by investment to meet needs of weather sensitive demands should not be paid for by non-weather-sensitive demands.

Gaz de France Energy Supply Solutions also do not believe the temporal split of a WYT is appropriate, as it would lead to additional recovery of TNUoS from industrial type demand and less recovery from weather sensitive/heating loads. This sends the wrong message to users.

The WYT proposals will incur significant costs to suppliers. This will come in two main areas:

1. Change in reconciliation processes with National Grid. A minor change to systems and processes will be needed to monitor and reconcile the demand between 07:00 and 19:00.
2. Massive change to Customer Service systems will be required. Suppliers will need to modify their CRM and Billing Systems to take into account the new WYT charges. It is impractical to assume that Suppliers will be able to do this in time for April 2004 (when all modifications need to be complete to allow billing of the new charges). Even if suppliers started changes today, it leaves 5 months to complete a major IT change. And as the decision on the change may happen in November, then it leaves but 4 months. There will also be a major cost to suppliers in making these changes.
3. Tariffs and pricing structures and systems will need to be revised. This is to allow any inclusive tariffs to reflect the changes. Any inclusive tariffs that already exist may cause suppliers losses if they cannot be changed to reflect the changing TNUoS regime.

These things act as a barrier to entry for new suppliers and may hasten market exits. The increases in costs for suppliers may even act as a barrier to competition for smaller suppliers who are less able to support the investment.

The introduction of a WYT acts as an erosion of the Triad signal at a time when system capacity is a major issue. It is not valid to quote CCM-M-07 as "increasing TNUoS" as a justifying factor. The fact remains that

UoSCM-M-11 will reduce the “peak” signal and hence reduce the capacity made available on the system at times of stress. This capacity must then be sought and paid for from other sources, increasing the costs to users and moving cost from the TNUoS pot to BSUoS. In addition it seems unlikely that end-users on the demand side will provide any significant reduction in use over the “off-peak” times and NGT suggest. Thus Gaz de France Energy Supply Solutions believe that this modification will decrease capacity at peak and increase costs with no benefits at other times.

In excess of 10% of TNUoS is already collected “off-peak” via Non Half-Hourly (NHH) TNUoS charges. Gaz de France Energy Supply Solutions do not think it is acceptable to say this done only to facilitate competition and as such additional collection is needed. The basis remains that more than 10% is already collected off peak. Additionally what does changing how the revenue is collected add? The revenue is still spent in the same fashion. Simply stating that the collection of TNUoS revenue in this way better reflects the costs incurred by National Grid is not correct as NHH already exceeds this.

In addition it can be argued that as long as the annual TNUoS charge reflects correctly the annual costs of the Transmission system it meets licence condition C7A 5(b). To this end, suppliers incurring the cost of changing this collection adds nothing.

The main analysis to support the 1:9 split for a WYT has been carried out “qualitatively” and the quantitative analysis provided to support this appears open to interpretation. Gaz de France Energy Supply Solutions do not believe this provides a clear and transparent indicator that 10% of investment in transmission is “off-peak”.

The subject of Within Year Tariffs was discussed at TCMF on 10th June at Brandon Hall. When the split of 9:1 was questioned, Mike Calviou stated that this 9:1 ratio was NGC’s best view and that an auditable model could not be produced. Gaz de France Energy Supply Solutions believe this is not acceptable in that the basis of this whole change is that some transmission costs are not peak driven, yet we are to understand that this amount cannot be modelled or audited and is just a “best view”. How are users to be sure that these costs are correct, properly recovered and fair and meet licence objectives?

Gaz de France Energy Supply Solutions would like NGT to clearly indicate what the driver behind this methodology is. Is it the emergence of new load patterns? If so can these please be clearly identified so that the types of user causing these costs can be identified? This way the costs can be targeted in such a way as to discourage this behaviour (if possible) and hence reduce costs and in many ways better meet the licence objectives.

Something not discussed in respect of WYT is the level of over-recovery that will occur and exactly where this will come from? How could over-recovery be fairly treated? How exactly would the charges be levied? Monthly, annually, based on forecast, post event?

Overall Gaz de France Energy Supply Solutions do not support a Within Year Tariff (WYT) regime.

If you require any further information or clarification on the above, please feel free to contact me.

Yours sincerely

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