



taking care of the essentials

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Our Ref. GB Transmission
Your Ref.
17th September 2004

Dear Richard,

GB Transmission Charging: Final Methodologies Consultation

Centrica welcomes the opportunity to comment to National Grid on the above paper.

We are still very concerned over the approach used by National Grid to determine a methodology for GB Transmission charging.

Our primary concern is that a subset of suppliers are again being disadvantaged by these proposals. Many suppliers were originally disadvantaged over the implementation of the "Plugs" methodology in April 2004. Following this change, vertically integrated suppliers with directly connected generators were the least hit by the changes made and non-vertically integrated suppliers or those without directly connected stations were the hardest hit.

We suggest that both of the current proposals, but especially Scenario B, have a greater adverse impact on those suppliers who are not vertically integrated and as such, we believe these proposals greatly hinder rather than facilitate competition in suppliers. It is therefore contrary to the licence objective of facilitating effective competition.

National Grid does not seem to have analysed the impact to this group of suppliers in either of their consultations.

In addition to the impact on competition between suppliers, we also believe that this proposal will give rise to increased barriers to entry for new suppliers as they will have to higher costs to overcome than the generally larger established, integrated supplier.

The changes that are proposed in the consultation coupled with those implemented in April 2004 will increase the transmission costs to domestic customers by an average of around 260% (Scenario B). If the Northern zone's figures are excluded from this average, it falls to around 120% increase. Northern zone will (under Scenario B coupled with April 04 changes) experience the highest percentage increase in transmission charges of over

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1800%. We believe that this level of increase, without the ability to offset against lower costs for generation assets, will severely prejudice independent suppliers.

Although, we do not support the introduction of negative demand charges in Scotland, we also do not support the introduction of a change to the Generation / Demand split at this time. We suggest that any change to the G/D split should be made following in-depth industry discussion and not merely to prevent negative demand charges arising from an already flawed proposal for the GB transmission charging methodology. Notwithstanding, we suggest that if a change to the G/D split is the only way in which National Grid believe that negative demand charges can be eliminated, we suggest that the smallest possible change is made (not rounded to the nearest 5) in the short term. This will then allow proper industry discussion to take place outside the confines of introducing a GB charging methodology, as to whether or not a greater change is warranted. We suggest that making significant changes to the G/D split would also have a detrimental impact to competition between suppliers.

On a final point we support the introduction of either a phasing of material changes or an increase in the level of notice required when material changes are likely to occur, this was raised at the TCMF on the 10th September. Suppliers are likely to experience two significant increases in charges within a twelve-month period. We believe it is unreasonable for suppliers in particular to be given so little notice on an issue that results in severe commercial implications. We believe that suppliers are facing increased and unmanageable risk and uncertainty over these significant increases to Transmission charges. This cannot be beneficial to the industry. Despite assurances to the contrary, it appears that the same late notice of final or even relatively accurate indicative tariffs will be experienced as tariffs are unlikely to be published in a timely manner for this sector. We believe that at the very least some sort of transitional arrangements should be investigated.

Please contact me if you have any queries regarding these comments.

Yours sincerely,

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