

**From:** Stephen.Macey@corusgroup.com  
**Sent:** 17 September 2004 14:55  
**To:** Lavender, Richard  
**Subject:** GB Transmission Charging: Final Methodologies Consultation

Dear Richard,

I have pleasure in detailing Corus' comments on the above consultation.

We are most concerned at the proposals to increase greatly the transmission charges paid by demand in England and Wales. We believe the increases are not justified and if implemented will confirm end-user scepticism that Betta will fail to deliver benefits to customers.

Based on the level of illustrative charges for both scenarios contained in Appendix 1 of the document, demand in England and Wales will see increases in the range 15.2 to 57.5% (Scenario A) and 35.1 to 128.9% (Scenario B) compared to the 2004/5 demand tariff. Zonal charges, we have been led to believe, are designed to reflect the LRMC of providing incremental capacity. We therefore find it hard to fathom why the cost to NGC of doing this would rise in one year by £2.55 to £3.13 per kW (Scenario A) and by more than double for Scenario B. In our view the increases are plainly not cost-effective. We do not understand why NGC cannot use the 2004/5 zonal charges for demand in E&W and, perhaps with some adjustment, slot in the proposed Scenario A charges for the Northern and Southern Scotland zones.

Competition between suppliers will also be adversely affected by these proposals. This is because suppliers can and do offer triad avoidance load management products where the supplier takes the risk of capturing the triads within the load reduction calls that can be made within the supply contract. The exposure of the supplier is related to the level of the £ per kW charge in the customer's zone, and with increases of the level contemplated, some suppliers may withdraw from offering such products, reducing competition in the supply market.

From the end-user perspective, Scenario B is manifestly worse than A. This results from an unacceptable shift in the G/D split from its present level of 27/73 (already biased in favour of generation) to 10/90. We see no justification for shifting costs from generation to customers, particularly at today's wholesale prices - which in the UK are considerable higher than competitor countries across the Channel. Moreover, those who tend to promote the idea that there would be no problem in loading most or all transmission charges on demand because demand ends up paying all the generators' costs anyway, are tacitly admitting that either there is no competition in generation or that demand is perfectly inelastic. This is because economic theory suggests that unless these factors apply producers would be unable to pass through all the additional cost to customers. Given there is competition, allegedly, in generation and that demand is not perfectly inelastic, certainly for industrial users as NGC's document recognises on p48, we consider that generators' arguments for demand to bear transmission charges are merely self-serving. We also believe it is entirely inappropriate for NGC to address the issue of the G/D split in this Betta-related consultation.

NGC must not be insensitive to the cost burden that will be imposed on customers in England and Wales. Assuming that the non HH charges mirror the increases in HH charges in Appendix 1 and, based on the average 2003/4 triad demand of 52GW, the extra cost to users in 2005/6 will be around £150 million under Scenario A and over £300 million in B. It should also be remembered that triad charges increased in 2004/5, albeit for reasons which we understand. However, NGC's and Ofgem's presentational skills will be stretched to the limit to explain away, for example, the shift in the Northern zone from £0.58 per kW in 2003/4 to potentially £11.31 in 2005/6. This kind of increase, 1,850% over two years, is one more readily associated with third-world inflation than a price-controlled UK monopoly. National Grid should not put forward either scenario to Ofgem and instead formulate some fresh proposals which, while maintaining the principle of triads, do not increase charges to end-users in the name of Betta.

Turning to the issue of renewables in the Highlands and Islands and the end of the hydro benefit subsidy, we are concerned that GB suppliers - which in reality means customers - should have to

