

17th September 2004

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Dear Richard

GB Transmission Charging: Final Methodologies Consultation, August 2004

Thank you for the opportunity to respond to National Grid's current view of the transmission charging methodologies to be applied across the Great Britain (GB) electricity market following the implementation of the British Electricity Trading and Transmission Arrangements (BETTA).

From energywatch's perspective, there appear to be a number of unsatisfactory aspects to these proposals which will affect all consumers, who could potentially be subject to higher electricity costs should the increases in transmission charges, particularly those associated with Scenario B, be passed through. We also detect significant potentially adverse implications for supply competition in the proposals.

energywatch would like to make the following comments on the proposals set out in the consultation:

- we are concerned that the substantial increase in demand charges under either Scenarios A or B will not be balanced by commensurate reductions in generation charges. Although we note the currently indicative nature of the proposed figures, a supplier in Northern GSP Group would be paying 57.5% more in half-hourly demand tariff (£7.78/kW v. £4.94/kW) compared to 2004/05 actual tariffs under Scenario A, and 129% more in half-hourly demand tariff (£11.31/kW v. £4.94/kW) under Scenario B. The average increase across England and Wales (E&W), compared to 2004/05 actual half-hourly demand tariffs, is 27% under Scenario A, and 59% under

Scenario B. For suppliers in E&W only, we have yet to see how there will be any offset of these charges through lower generation costs;

- the scale of these increases to suppliers will inevitably require recovery from the end consumer through higher electricity bills. For smaller suppliers, and suppliers whose customer base consists mainly of commercial and industrial customers, there may be a considerable disturbance to existing supply contract terms where pass through is permitted. Customers on fixed contracts with no pass through would not be exposed to additional charges but the supplier would need to absorb increases potentially distorting competition;
- the continuing risk of further change to transmission charging has not been eliminated by National Grid's approach. The failure to consider longer term, potentially more stable, charging solutions until after the implementation of BETTA, and the current unwillingness to phase in the additional proposed charges, could continue to create difficulties for suppliers, generators and consumers, and extend the period of uncertainty in the wholesale electricity market for the foreseeable future. The impact, in particular, of not phasing in the substantial changes to demand charges is likely to create a cross-subsidy, in favour of larger suppliers who, due to their geographic and market segment coverage, may be better able to absorb these additional costs than small suppliers who operate in certain market sectors only, again potentially thereby adversely impacting supply competition;
- NGC's preferred option of Scenario B adjusts the ratio of generation/supply share of TNUoS charges from the current 27:73 to 10:90, thereby skewing the burden onto demand users even more. This cannot be viewed as anything other than discriminatory towards customers, and indeed their suppliers, within the current charging principles, particularly small suppliers who do not own generation assets;
- the proposals are a further illustration of frequent and material change which grid users, and ultimately consumers, are becoming used to seeing in terms of network charges. In this instance scenario B highlights a new area of risk, the unstable nature of adjustments to the generation/demand charge ratio, previously assumed to be a given. Taken together such changes inhibit market participants from having adequate opportunity to plan on a long-term basis, and which will have over time a knock-on detrimental impact on consumer charges through unnecessarily increasing risk. It is arguable that this propensity to introduce significant change could put NGC in breach of its licence obligation to facilitate competition;
- National Grid has highlighted a number of proposed subsidies to generation which are not yet incorporated in the GB transmission charges. Any such subsidies should be fully transparent to the market, and to

consumers, who would be better able to identify the reasons for increased electricity charges;

- we are concerned about the changes made to the normal timetabled process for approving the GB charging statements. The amended timescales, meaning that the 150-day rule for notification by National Grid of changes to TNUoS charges is being disapplied, adversely affect proper consideration of the proposals. While we recognise that Ofgem intends to carry out a further impact assessment of the proposals, this is an inadequate substitute for the usual process. In our view, these changes to the process create considerable commercial uncertainty for all users, but particularly major customers and their suppliers, who seek to finalise many customer contracts before October. Without more certainty about the transmission demand tariffs to apply in 2005/06, they will find it difficult to reach acceptable agreements, particularly those seeking long-term contracts; and
- the longer term uncertainty surrounding the predictability and stability of demand charges could also adversely impact on suppliers and through them on customers.

I hope these views are properly incorporated into your consultation process, and would be pleased to discuss them further.

Yours sincerely

Lesley Davies
Director of Policy and Research