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## **Gaz de France Energy Supply Solutions – Response to CCM-M-07.**

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 move assets that are currently paid for via connection charges into infrastructure. This is ostensibly to address some users perceptions that there is a restriction to competition and a barrier to entry under the current arrangements.

### **Comments in Relation to NGT licence conditions**

The first concern around this proposed methodology is that there is no clear economic efficiency driver. Any costs that were traditionally part of the connection charge will be subsumed into the charges paid by the market. This means there is no driver at any individual connection to minimise the costs of that connection. It is noted that NGT believe this is not the case because of a licence obligation to develop an efficient and economic Transmission system. There remains, however, a concern some connections that had previously been viewed as unviable by the connecting party due to the connection costs might now proceed with the costs being borne by the whole market.

National Grid stated in CCM-M-07 document (pg 21 – point 6.2) that the change in connection boundary is to better meet condition C7A 5(a) of the Licence. This means facilitating competition in the generation and supply of electricity. There has been no evidence presented as to how this change will increase competition in the supply or distribution of electricity or in any other area.

Gaz de France ESS believes that this change will reduce competition in electricity supply. The reasons for this are:

- Increasing TNUoS charges will increase the risks on suppliers who offer aggregated prices (TNUoS inclusive pricing structures). This will make them less likely to offer such products and hence reduce choice and competition. This is particularly true of smaller suppliers.
- In addition, this increased risk on inclusive prices may mean that as well as paying a higher energy price (to include higher TNUoS) the customer could end up paying an additional risk premium as any volatility between predicted and actual load leads to a greater variance in TNUoS recovery by the supplier. This could lead to disproportionately higher energy prices.
- Any products based around Triad risk and load management will bear an increased “non-delivery” risk to either the supplier or the end customer. This will lead to less offers of this type being available to customers and less customers willing to take such products, thus reducing the size of the market.

- The resulting increase in TNUoS increases the monthly TNUoS payments required. This has a negative cash flow effect and could also lead to pressure to submit conservative TNUoS demand forecasts to reduce outgoings. This could be the case if a supplier has a larger portfolio and feels that investment of the money will gain more than the 3% interest required by NGT at reconciliation. In any case any additional costs of cash flow will be borne by the supplier or the end user.

From the evidence presented, a demand user with one unit of demand in each zone would pay around 26% more TNUoS overall. Whilst it is agreed that all suppliers see same charges for a given area, this does not reflect the fact that there is additional TNUoS risk and cost on these suppliers. Given the fact that customers could see their TNUoS bill increase between thousands and hundreds of thousands of pounds per annum, and yet see no overall benefit for this change, it is difficult to understand the justification for this modification.

Gaz de France ESS are also unable to see how cost reflectivity will be improved compared to the existing regime. The current method meets 2 licence objectives as users pay based on costs applicable to them (i.e. the connection charges) and it reflects costs of those connections. The new method fails as some users would pay for costs, (eg Generator Only Spurs), which they have no relation to. Furthermore this methodology gives no additional incentive to use existing connections over creating new ones. Currently it would seem to be better to use existing connection infrastructure than build new.

There is also an issue around condition C7C of the licence, as it appears that the charges to different classes of users will no longer directly reflect the cost of service to those users. Take as an example a Generator Only Spur. Currently, only users connected to it bear a share of the cost of that spur. Under the new proposals other users (i.e. generators) who may have no connection to or use of that spur will be forced to bear a share of that costs, whilst the users connected will potentially pay significantly less.

Overall Gaz de France Energy Supply Solutions does not support the change to the connection boundary because it does not better meet National Grids licence obligations than the current methodology. Specifically:

- Competition in the generation and supply of electricity, (and the sale, distribution and purchase of electricity), would be decreased from the current position.
- The overall reflectivity of charges is not improved for the extra cost of this modification.
- This change does not seem to take account of developments in NGT's transmission business in any better way than the current pricing methodology.

In terms of the other modifications related to this, site specific maintenance, land charges, termination charges and site specific maintenance charges, Gaz de France ESS does not have comment to make, based on the fact they are required only in support of the change of connection boundary.

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

Yours sincerely

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