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20th May 2004

Dear Mr Easterbrook,

GB Transmission Charging: Initial Methodologies Consultation

Thank you for the opportunity to respond on this as we have a few comments upon the impact of the proposals on England and Wales Suppliers and our customers.

In adopting any methodology the charging disturbance to existing Suppliers and Industrial and Commercial customers under contracts must be considered. It appears from the indicative numbers produced for Demand side that charges will increase by 29 – 42% for England and Wales. This will have a significant affect on stand-alone Suppliers especially those based primarily in England and Wales as they will not benefit from any offsetting adjustments in the generation rates or reduced Scottish Demand costs.

The ability of Suppliers to absorb the changes in costs will depend upon the margins achieved in the various sectors. It is without doubt that the Suppliers of Industrial and Commercial customers, where margins are tighter than those in the domestic sector and where customers tend to be on fixed price 2-3 year contracts, will be impacted most. Such a change will affect approximately 2 million non-domestic customers who are on fixed price contracts. The scale of the changes indicated is very material in relation to the margins being achieved in this sector. The impact of such a change is sufficiently material to invoke a change of Law clause in Customer Contracts. This will no doubt cause a significant disturbance to customers in the market who are already facing rapidly increasing charges as a result of rising energy costs and the potential effect of smearing of the Hydro benefit.

Customers believe that charges for networks under the various licences are intended to be cost reflective. It is very difficult to justify the increases above when the costs of supplying any individual customer have not changed. This will no doubt cause considerable concern which may result in a barrage of complaints from customers to Suppliers, Energy Watch, OFGEM, etc.

Some suppliers may choose not to pass the additional costs through to end customers. The extent to which they choose to do this given the size of the change may demonstrate a degree of cross subsidy within different aspects of their businesses, either from generation or more profitable sectors of the market. This would clearly be viewed as anti-competitive by New Entrant Suppliers who have less mature portfolios.

The situation is made even worse by the spreading the Scottish Hydro benefit charge over all customers.

One way of addressing this would be to consider the relationship between the ratio of cost recovery from Generators and Suppliers, moving towards a more widely accepted 50:50 split may reduce the impact to acceptable levels.

Whilst we understand the economic theories behind the approach being taken by NGC and if the system of charging were starting from scratch the approach would be justified, however they do not address the practical reality of the step change impact upon various sectors of the market. A change of this size positively discriminates between players operating in different sectors of the market that is contrary to the relevant objective in the Transmission Licence. For example, those suppliers who have generation in England and Wales or Scottish customers are less impacted by the change due to the offsetting nature of the charges.

A step change will have a very negative impact upon the facilitation of and the development of a competitive market. Careful consideration should be given to minimising this impact through a phasing in of such large changes in supply costs over at least 2 years. Indeed, if part of the transmission charging methodology is to give long term incentives on participant behaviour, it would be more appropriate to make any changes on a 2 year time horizon so that participants can react and behave appropriately. Changing charges months before implementation date gives suppliers little or no scope to reflect the charges in their end customer prices.

We are still concerned as to the impact of BSUoS charging on a GB basis and whether this would have a material change on the current levels of BSUoS payments. As yet we still have not seen any indicative numbers so feel we cannot make a more constructive response. Again anything that materially changes costs from current levels needs to have its impact upon the competitive supply market assessed.

Regards

Keith Munday
Commercial Director