

# Charging Issues Standing Group

## NHH and HH demand switching

### For discussion

### 16 May 2005

#### Introduction

1. Demand TNUoS charges are dependent on the measurement of the demand:
  - HH demand is charged on the triads, based on the average demand taken at the three system peaks, with a typical charge of £15/kW; and
  - NHH demand is charged on the annual energy taken 16:00 to 19:00 in the year, typically at 2p/kWh.
2. There appears to be an anomaly in the charging rules where a change between measurement types takes place part way through a year.
  - where the change is from NHH to HH prior to November (when the triad period starts) the supplier will pay a NHH charge based on the relevant energy taken to the changeover, and then pay full HH triad charges for the rest of the year – i.e. there is a potential for overcharge;
  - conversely, where the change is from HH to NHH prior to the end of the triad season there is a potential for undercharge.
3. This anomaly may not have been particularly significant, in overall terms, until recently as switching rates were low, indeed the BSC rules discouraged suppliers from switching from HH to NHH.
4. The significant market change has been the implementation of BSC modification P124 on 1 December 2004.
5. Prior to P124 the BSC required suppliers to fit HH metering at premises where the demand exceeded 100kW. This was difficult to monitor as BSC systems do not record data at a premises level, but at metering system level (more complex sites may have more than one metering system).
6. P124 introduces the requirement to fit HH metering where the demand on the metering system exceeds 100kW. This is regarded as easier to monitor and investigate, as consumption levels are available at a metering system level to alert to higher usage. P124 also makes it easier to change from HH to NHH where demand has fallen away. Backing up the requirement to fit HH metering is a BSC supplier serial, where suppliers face a charge if they fail to fit HH meters on sites identified for such a requirement.
7. The Ofgem decision letter of 18 May 2004 notes on page 4 (see link below) that that up to 10500 NHH sites could be impacted by the requirement to fit HH metering. The report does not estimate the number of HH to NHH switches, but it is reasonable to estimate that these will be relatively much lower.
8. The following calculation illustrates the potential materiality of the issue.

The following assumptions have been applied:

- the meter change takes place, on average, 4 months into the year
- annual consumption is 400 000 kWh
- NGT tariff charge is 2.0p/kWh (an average charge)
- NGT NHH demand charges are based on energy consumption over the period 16:00 to 19:00 hrs each day
- based on a customer's profile this could be between 12.5% - 15%. In this example I have assumed 15%;

The overcharge is calculated as follows:

- consumption for 4 months  $400000/3 = 133333$
- period charge is  $133333 * 2.0 * 0.15 = £400$
- Therefore the potential overcharge over the year £400.

9. Suppliers face additional metering costs where they are required to fit HH meters, and there can be resistance from customers, because of the costs involved. One estimate of the metering cost is around £400-£500, so the overcharge in the example above would help fund the meter change.

### Conclusions

10. There does appear to be a potential anomaly, which may result in a blurring of cost reflection in TNUoS charges.
11. The significance of the materiality is open to further analysis.
12. An immediate, low cost solution is not immediately apparent and would require further consideration.

### Recommendation

13. NGT should explore the issue further to establish the potential costs to suppliers, and the potential costs of implementing changes to the charging mechanisms.

### Background Information

The Ofgem decision letter can be found on the Elexon web-site on the following link:

[http://www.elexon.co.uk/documents/modifications/124/P124Decision\\_document.pdf](http://www.elexon.co.uk/documents/modifications/124/P124Decision_document.pdf)

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