

EIUG Response to NGC Consultation UoSCM-M-08 Proposal for new winter peak "capacity" proxy for half-hourly metered demand TNUoS charges

NGC's proposal for a new winter peak charging methodology to replace the current Triad regime is a matter of great importance to EIUG, which represents the industrial sectors in which the bulk of existing demand response for Triad avoidance occurs. Since the consultation document was published in November, EIUG has been involved in extensive dialogue with NGC, suppliers, energywatch and other customer groups in order that the implications of this proposal for customers generally, and for peak system demand as a whole, be fully understood by all concerned. The comments below comprise EIUG's considered response to the consultation and outline why, in our view, the proposal should be rejected.

In response to NGC's proposal, EIUG conducted a survey of its members in order to better understand the impact of a change to the current Triad regime. The survey revealed around 1400 MW of active industrial load management for Triad avoidance within the industrial sectors EIUG represents. This figure relates purely to the specifically identified sites for which data could be obtained in the limited time available, and therefore under-estimates total response from the half-hourly market. It would be reasonable to suppose that the number could easily exceed 1500 MW when the rest of the half-hourly market is included. On the other hand, some members surveyed said they may be able to load manage through the proposed winter period, but to a greatly reduced extent - most others, including some of the largest demand sites, would be unable to load manage over an entire winter period. Taking all these factors into account, we believe the overall effect of NGC's proposal would be to increase industrial and commercial demand at peak times by 1400-1500 MW. NGC's assumption of 800 MW demand response for Triad avoidance, referred to in their consultation document, is therefore significantly under-estimated.

The proposed charging scheme would also reduce the current incentive on the operators of the French interconnector to avoid exporting at times of peak demand to avoid potential triad charges. It would therefore not only have the unfortunate effect of causing load management to reduce by up to 1.5 GW, as discussed above, but also to increase the risk of the interconnector exporting rather than importing at times of peak demand, resulting in an additional 4 GW effect (reducing potential supply and increasing demand by 2 GW respectively). These two factors could reduce the margin of peak supply over demand by over 5 GW. The cost to NGC of operating and balancing a system with enhanced peak demand must necessarily be higher than at present - a cost ultimately borne by customers. This proposal would therefore be likely to increase NGC's costs, and hence run counter to the requirement for it to be efficient and economical in its operations.

EIUG believes this proposal would adversely affect competition in supply. Suppliers are currently able to compete on the load management terms they offer to end users. Clearly, if the amount of load management falls significantly, so will competition in providing these services.

We understand that the effect of the proposal would be to alter the balance of costs shared between half-hourly metered (including industrial) and non-half hourly

metered (largely domestic) customers. It is the latter which is primarily responsible for demand peaks, yet costs to the former - whose loads are more stable - would rise under the proposed charging scheme. The onus should be on those making the proposal to demonstrate that the resulting cost allocation more appropriately reflects the origin of those costs. Yet this case has not been made - indeed, in our view, it cannot be made, as such a change would result in a less efficient, inequitable cost allocation. We note that as recently as August this year, in its Summary and Conclusions paper on Demand Charging for the Interconnector, NGC agreed that the current Triad-based methodology was cost-reflective and non-discriminatory in its application to all half hourly metered demand users.

Even if the objections noted above did not apply, it would not be fair or practical to make a radical change in the charging system in 2003. Some customers will already have fixed rates for the winter of 2003/04, so a major change could not reasonably be implemented before 2004/05 at the earliest.