International Energy Update – UK T/D Charges

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9 April 2010 - The following new charges will apply to both distribution and transmission charges for electricity and gas in the United Kingdom from 1st April 2010 arising from recent Ofgem determinations.

Electricity

Every five (5) years Ofgem (the UK gas and electricity industry regulator), in consultation with the electricity distribution network operators (DNOs), determines the capital requirements of the networks and the level of return that they can earn on their assets over the following five (5) years. The most recent Distribution Price Control Review (DPRC5) has just been published and applies for the 5-year period commencing April 2010.

While cost recovery has increased on average 5.8 percent since the last review, this increase is not applied universally across all the DNOs. There have been significant changes to the methodologies used in the pricing of these services that potentially have wide ranging effects depending upon a user's load profile and location.

There is a wide range of new distribution charges depending on whether a consumer takes electricity from a high or low voltage supply with changes on current charges from – 15 percent to 140 percent depending on supply and location.

Common Distribution Charging Methodology (CDCM)

The common methodology is being introduced to provide a uniform approach to charging all consumers for the delivery of electricity from the local distribution network to the metering point. This approach is designed to provide a consistent approach across all distribution regions, voltages and metering arrangements. The common feature between all DNOs is that the distribution charges will be related to time of use with increased charges throughout peak periods.

There are four (4) fundamental changes under the new CDCM;

1. Distribution Use of System charges will be recovered using an approach which divides every 24 hour period into three tariff bands - red (high), amber (shoulder) and green (low).
2. The removal of excess charges for available capacity.
3. The available capacity will be set no lower than the maximum demand recorded within that month.
4. Reactive power charges will now be applied to all network operators.

The day/night, week/weekend and seasonal charges have been superseded by the above tariff regime. While generally the high tariffs are 4 – 7pm on weekdays, each DNO has a slightly different profile with London introducing a second peak between 11am – 2pm weekdays.

Transmission Charges

In addition to the Ofgem DPCR5, National Grid has reviewed the charges applied for transporting electricity from Generating Stations to the local distribution networks. As a result of this view transmission charges will increase from 1st April 2010 as follows:

Zone Name.	2009/10 (£/MW)	2010/11 (£/MW)	% Change
Northern Scotland	3.38	5.87	73.6%
Southern Scotland	9.07	11.22	23.7%
Northern	12.06	14.52	20.4%
North West	16.54	18.43	11.4%
Yorkshire	16.30	18.34	12.6%
N Wales & Mersey	16.89	18.89	11.9%
East Midlands	19.13	20.93	9.4%
Midlands	20.53	22.69	10.6%
Eastern	20.01	21.84	9.1%
South Wales	23.68	22.52	-4.9%
South East	23.84	24.63	3.3%
London	25.90	26.76	3.3%
Southern	24.47	25.49	4.2%
South Western	25.63	26.06	1.7%

Gas

The gas transmission and distribution industry has a separate pricing control regime (GDPCR) for the period 2008-2013 and the annual review is more straightforward as the underlying approach has not changed significantly (although there is a wide range of price increases and the table below only represents the average). As of 1st April 2010 both National Transmission System (NTS) and Local Distribution Zone (LDZ) have announced price increases.

The new NTS Commodity charge is 0.0196 p/kWh – representing an increase of eight (8) percent. The increase has been driven by a sustained positive rise in unaccounted for gas impacting on shrinkage costs.

For the LDZ the following sets out the average increases compared to the prices current in October 2009:

East of England	+ 4.4%	North of England	+ 10.8%
London	+ 8.4%	Wales & West	+ 3.8%
North West	+ 6.3%	Scotland	+ 7.2%
West Midlands	+ 9.1%	Southern	+ 7.8%

These percentages are averages and customers may see variations, as charge levels will vary by load size.

Impact upon NUS Consulting clients

For most clients, the current energy supply contracts are based on a fixed price with both distribution and transmission charges imbedded into the unit rates. Therefore they will be protected from the impact of these increases until the expiration of their current contract. Only clients on energy only contracts will be exposed to these increases from 1st April 2010.

In general, for half hourly metered consumers, the CDCM will translate to lower standing charges and Available Capacity costs and an increase in peak (red) and shoulder (amber) unit rates.

It should be remembered that distribution charges currently represent only 15 – 20% of the delivered energy price, so a 5% increase translates approximately into a 1% increase in delivered energy cost.

As we approach renewals we will be able to determine the impact of these changes for each client and we will discuss strategies available for minimising the impact of these cost increases.