



UCC newsletter

utility consumers consortium
www.ucceurope.com
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regulation news

Significant increase in transmission charges

National Grid's indicative transmission charges for 2006-07 show a general increase of about 9%

In line with the recent transmission control rollover decision from Ofgem and some significant local shifts, increased charges are due to:

- increased capex in line with the one year rollover in NG's price control
- additional revenue to enable infrastructure to connect renewables schemes in Scotland and to reinforce transit capacity south into England and Wales.

Demand charges generally will increase by about 8% for half hourly customers – these are the so-called triads based on customers' average demand at the three highest peak times on the system that fall ten days apart – and closer to 9% for non half hourly customers.

Demand charges in Scotland have seen the greatest increases. National Grid will aim to issue final tariffs late January.

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for more

information visit:

www.nationalgrid.com/NR/rdonlyres/35969530-69ED-4430-9FDC-D7DC340F62B1/5405/DraftTariffs2006_2007.xls

National Grid indicative transmission charges

Demand Zone no.	Zone name	HH Zonal Tariff (£/kW)				NHH Zonal Tariff (p/kWh)			
		05/06	Draft 2006/07	Absolute diff	% diff	06/06	Draft 2006/07	Absolute diff	% diff
1	Northern Scotland	0.04	0.34	0.30	727.0%	0.01	0.04	0.03	613.0%
2	Southern Scotland	4.11	5.33	1.22	29.5%	0.56	0.71	0.15	26.4%
3	Northern	7.39	8.34	0.95	12.8%	0.97	1.13	0.16	16.5%
4	North West	11.14	11.87	0.73	6.6%	1.46	1.58	0.12	8.1%
5	Yorkshire	11.18	11.89	0.71	6.3%	1.49	1.63	0.14	9.6%
6	N Wales & Mersey	11.21	12.11	0.90	8.0%	1.51	1.62	0.11	7.1%
7	East Midlands	13.47	14.41	0.94	7.0%	1.80	1.97	0.17	9.1%
8	Midlands	15.03	15.95	0.92	6.1%	2.06	2.18	0.12	5.7%
9	Eastern	14.03	14.99	0.96	6.9%	1.91	2.09	0.18	9.4%
10	South Wales	18.32	19.61	1.29	7.1%	2.37	2.55	0.18	7.6%
11	South East	15.99	17.79	1.80	11.3%	2.17	2.46	0.29	13.5%
12	London	18.52	19.63	1.11	6.0%	2.45	2.56	0.11	4.3%
13	Southern	17.83	19.28	1.45	8.1%	2.45	2.65	0.20	8.3%
14	South Western	20.49	22.07	1.58	7.7%	2.73	2.85	0.12	4.5%

National Grid highlights near and medium term supply issues

National Grid Gas latest annual 10 Year Statement on the outlook for gas supply and demand and the attendant implications for its network investments shapes expectations in the sector.

National Grid Gas's (NGG) annual 10 year statement has highlighted the end of UK gas self sufficiency, increasing demand and volatility from power generation and exports and increasing investment in new import capacity.

"an average increase in annual gas demand of 2.2% per annum through to 2014"

- actual production above forecast over the last few years
- total recoverable reserves now lower than forecast
- some slippage of new developments.

Overall the view of the supply demand balance is based around the following:

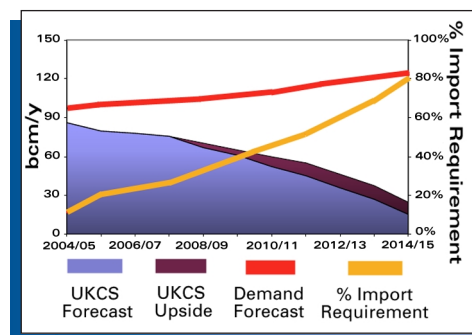
Over time, NGG's "Transporting Britain's Energy 2005" process has become much more consultative, meaning that the views ultimately shown in the statements can be seen as reflecting a broad constituency of participant views.

Recent years have seen demand broadly moving in line with expectations whilst on the supply side deliverability, from the UK Continental Shelf in particular, has not. If anything this trend is becoming stronger and has been one of the key factors driving the wholesale sector.

NGG's latest assessment of UKCS production stands at 84bcm for 2005/06. That made in 2003 for 2005/06 was 21 % higher (102bcm). This material change, equivalent to 70mcm/d at peak, is attributed by NGG to:

- an average increase in annual gas demand of 2.2% per annum through to 2014, with peak demand growing at the marginally lower rate of 2.1% per annum
- demand in the Distribution Networks is expected to be relatively stable, with more volatility in NTS loads, particularly power stations, and exports
- import dependency of 46% by the end of the decade, rising to around 80% by 2014/15 (as shown in the chart).

NGG analysis indicates forecast NTS investment lying in the range £1.0bn to £1.1bn, a relatively narrow band. It attributes two main reasons for this: phasing issues and the fact that a significant amount of this is already committed.



National Grid forecasts

National Grid to increase Isle of Grain LNG capacity

National Grid is to offer a further five million tonnes of long term LNG importation capacity at the terminal. All LNG shippers will be able to bid for the right to berth LNG carriers and unload into the facility for temporary storage, prior to re-gasification and delivery of gas into the UK's National Transmission System.

NG says the additional capacity could be available ahead of winter 2010/11.

news in brief

Balgzand Bacton pipeline offers capacity from 1 March 2007

BBL Company V.O.F. which is currently constructing a gas transmission pipeline (BBL) between the UK and the Netherlands is offering capacity to ship gas from the Netherlands to the UK for nine months from 1 March 2007. Preference will be given to those shippers bidding for the whole nine months and, at the end of that period, capacity will be used for servicing signed contract. BBL is due to start commercial operations December 2006.

Canvey LNG project plans submitted

Plans to develop a new LNG terminal at Canvey Island formally submitted to Castlepoint Borough Council on 11 January. Calor, which owns the LPG site at Canvey, has teamed up with Centrica, LNG Japan Corporation and Osaka Gas of Japan in what could be a multi-million pound development. James Adam, Project Manager for Canvey LNG said the four partners would each bring their own unique experience and expertise to the Canvey project.

2006: the year the price bubble bursts?

Recent comments from city analysts appear to express contrasting views on price developments in 2006.

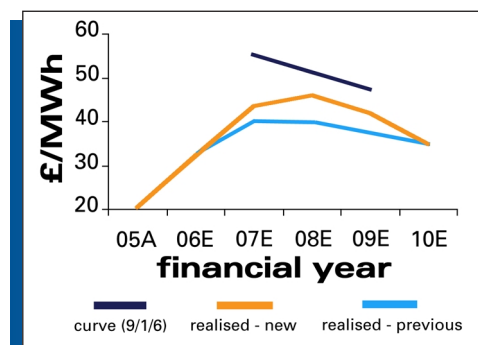
Addressing one of the key themes behind its current stock recommendations, Citigroup notes that generators able to access rising wholesale power prices were the best performers in 2005.

However, it does not believe that there will be increases of the magnitude seen last year, which it attributed to higher UK gas prices and carbon trading stimulating greater coal-fired power production and upward pressure on carbon permit prices.

Citigroup also says that 2006 is more likely to see lower electricity and gas prices in

most markets. It expects this to be particularly the case in Great Britain, as new gas import facilities come on stream towards the end of the year. This should reduce the supply security premium over Europe and there should also be a pass through of any reductions in European oil-linked prices resulting from reductions in the prices of that fuel.

On the other hand, Merrill Lynch highlights the implications for British Energy if it continues at current levels. As the chart above shows, Merrill Lynch has upgraded its forecasts of British Energy's average realised



Forecast realised contract prices for British Energy, Merrill Lynch

prices (ARPs) by 8-16% to reflect the potential impact of the stronger forward curve.

Reinforcing this message, Mark Clare, managing director of British Gas, predicted that domestic consumers will face further rises in gas bills in the next few months. In the Observer in early January, he said "if the forward curve that we currently see comes through, the whole industry is going to be facing very substantial increases – more than we have seen in 2004-05. I don't think the supply industry has the capacity to absorb very much of these increases."

regulation news

Ofgem closes gas price probe

More than two years after its commencement – and with gas prices on an altogether different level – Ofgem has concluded its gas price probe with a detailed analysis of an important offshore contract. Back in October 2003 Ofgem launched a "probe" into what at the time seemed a huge surge in gas prices. Two reports, an interim in May 2004 and final in October 2004, set out its methodology and conclusions and one further area for investigation: whether the operation of a small number of offshore contracts might have restricted flows to beach. This activity concentrated on the arrangements from the Sean field output, involving Shell, BP, Exxon (as producers) and Centrica (as purchaser) and has culminated in a report issued in early January.

Ofgem has compared Centrica's use of the contracts with its own theoretical assessment of the behaviour of a stand alone trader and considered their potential impact on market prices in to the future. The conclusion is that Centrica has not operated the contracts in a way that resulted in gas being withheld from the market and that the Sean arrangements do not generally "appear likely to have a materially adverse impact on the GB gas market." Ofgem does, however, say that it will monitor the situation as part of its "ongoing market surveillance activities" and emphasises the ongoing European Commission investigation.

policy news

US forces EC into rethink on inclusion of aviation in EU ETS

The European Commission is being forced to consider scaling back the inclusion of aviation in the EU emissions trading scheme, a move endorsed by EU environment ministers on 2 December 2005, after the US threatened to take legal action to block it. All aircraft departing from EU airports would be covered in the scheme, but the US Federal Aviation Administration believes this would breach the 1944 Chicago Convention exempting airlines from paying tax on international flights. The Commission has appointed a working group to produce a plan by the end of April.

European Commission sets guidance on Phase II NAPs

The European Commission guidance for member states in drawing up national allocation plans (NAPs) for the second phase of the EU Emissions Trading Scheme signals the commission's intention to look closely at the overall policy mix given the 2008-2012 trading period coincides with the "commitment period" for meeting emissions targets under the Kyoto protocol. On average member states will be required to reduce CO2 emissions by 6% between 2008-2012, this reduction roughly correlates to the EU's predicted shortfall from its targets under Kyoto.

Charges and sales practises

Small energy customers are finding that the absences of some provisioning in financial forecasts and budgets to cater for energy charge rises is causing some nasty surprises and in some cases financial distress.

Many SME customers are coming to the end of attractive five year deals and are finding that 100% plus rises in the cost of both gas and electricity are very much commonplace.

Careful choice of supplier is equally important as is the manner in which the contract is purchased. As always it is a case of "Buyer Beware." Unfortunately competition in the UK Utility market has brought with it a host of undesirable sales practises. In some cases competitive pricing is compromised by an uplift in prices to provide sales commission, all too often to a disadvantageous level. It is extremely difficult for the SME user to know which Broker, Consultant or Sales Agent is truly honourable or indeed, approved. Are they working direct for the supplier, do they possess an authorisation badge? In a market as volatile as the UK energy market how can the SME customer be expected to compare prices?

Controls also needed for SME's

Tighter controls in the residential market have to some extent eliminated many unsavoury sales methods together with recognition of the situation, and support, from the honourable energy supplier. Unfortunately throughout the UK many sales teams, brokers and consultants have been set up and with the demise of the residential market have moved into the SME market. It is extremely difficult for any customer to know precisely who is acting in a "Bona Fide" manner on behalf of the supplier and therefore is all too easy to find that the price offered is far from the best in either terms and conditions or price.

Contract churn is of considerable concern to suppliers as in many cases agents recommend customers to change, very often in the knowledge that the change is disadvantageous, in order that a second commission can be earned. The customer may well finish up paying a higher price and the suppliers loses a customer through no fault of their own.

Through the offices of UCC a knowledge and/or relationship exists with most sales outlets and free guidance can be provided on request. In recognition of the problems and issues arising in the SME market with mis-selling related

Simple guidelines

- deal direct with major suppliers
- ensure notice is given to avoid prohibitive penalty prices
- always check with three main players
- check the authenticity of any sales agent carefully
- do not commit on the telephone unless prices have been carefully checked.

practises UCC is intensifying its dialogue with Energywatch and OFGEM in order to consider some form of accreditation for sales outlets

We have for some time believed that a suitable SME Code of Practice, coupled with monitoring and policing of sales tactics would help in tidying up the marketplace. We believe that interaction with suppliers and Energywatch would enable complaints to be monitored and tracked back to the actual sales outlet allowing those acting against the best interest of both supplier and customer to be excluded.

Such a system would enable suppliers to identify quickly the culprits who are bringing the market into disrepute and also would ensure that the movement of those persons between suppliers is eliminated.

UCC working on your behalf

We will be in detailed discussion with suppliers and the regulatory bodies to format ideas on a suitable structure for a control mechanism for this market. Subject to endorsement and guidance from Energywatch a meeting of interested parties will be convened in the near future to agree both format and operational guidelines.

Any of our members who would like to attend or contribute to this project are welcome to contact Christina Valentine at the Droitwich office to register their interest.

UCC meeting dates

March

Meeting being planned

27 April

Energy Meeting
Chamber of Shipping,
London

5 July

Energy Meeting
Chamber of Shipping,
London

27 September

Energy Meeting
Location to be decided

28 November

Energy Meeting
Chamber of Shipping,
London

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