



**BOC GASES RESPONSE TO STRUCTURE OF ELECTRICITY
DISTRIBUTION CHARGES: INITIAL CONCLUSIONS
JUNE 2003 43/03**

1. Introduction and general remarks

BOC has owned and operated industrial gas producing plants in England and Wales for many years and presently operates six very large complexes with an annual consumption approaching 2TWh making BOC amongst the very largest industrial electricity customers in Britain.

The production of industrial gases by air separation is a very energy intensive and the electricity required to drive the process can be considered our raw material. The level of electricity prices is thus of the utmost concern to BOC and its customers many of whom such as those in the steel and chemical industries are battling to survive in tough global markets. Therefore access to internationally competitive electricity prices are vital.

BOC joins the Government in its aim to see environmental damaging emissions reduced and BOC has for many years sought to achieve and has achieved improvements in energy efficiency. BOC recognises that Ofgem is committed to working with Government to meet the challenge of achieving a low carbon economy at least cost to consumers.

BOC is very concerned about the cost effects attempting to meet these challenges. We wish to see that Government and Ofgem approach them in the spirit of the 2003 Energy White Paper which states that the UK cannot solve the problem of climate change on its own and should avoid compromising UK competitiveness.

Large and intensive customers are already paying climate change levy, increased electricity costs as a result the Renewable Obligation and the future looks more difficult still as the electricity wholesale market forward curve is showing steeply rising prices as the effects of the EU Emissions Trading Scheme are factored in.

It is in this context that BOC has great concerns that revised structure of electricity distribution charges may add further to electricity prices as more distributed and renewable generation is connected to the system. The cost of which has been quoted in the technical press as high as £2bn.

BOC therefore believes that the effect of the cost on the final customers especially those large and intensive ones battling to do business in world markets should be high on Ofgem's priority list when deciding how to proceed in this area.

2. Charging principles

BOC believes that the principles set out in paragraph 3.4 are first rate and cannot be argued against. Skill will be required to implement them all whilst keeping a sensible balance between them.

BOC wishes to challenge the concept that there should be symmetry of approach to the generation and demand side of the electricity system. Demand should not in BOC's view been seen simply as negative generation and methods of approach do not work equally well on both sides. For example locational signals can be expected to be more effective for generation than demand.

BOC supports the thinking set out in paragraph 3.8. BOC welcomes the statement that access should be on a non discriminatory basis and that particular types of connectees are neither favoured over others or treated less fairly.

BOC believes that in moving to long run marginal cost care should be taken to ensure that charges reflect the total cost operating and maintaining the existing system as well as any element of investment properly required. It is important that any move to does not over recover costs and overcharge customers.

3. Connection boundary

BOC supports the approach set out in paragraph 4.21 that connectees pay only for sole user assets and that in paragraph 4.23 that at lower voltage levels a contribution to re-enforcement costs should be made.

Having said this BOC feels that it should not bear the risk of paying higher charges for failed generating schemes either by: -

- a) paying increased DUOS charges for reinforcement work not all required or very little used; and/or
- b) having to pay charges on an increased regulatory asset base because charges previously paid by now failed generators are passed on to customers by the DNO.

4. Detailed charging issues

BOC believes that EHV charges should be included in the price control.

Hugh Mortimer, 8 August 2003