



BOC GASES RESPONSE TO DISTRIBUTION PRICE CONTROL REVIEW: INITIAL CONSULTATION, JUNE 2003

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 difficulty 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 this context that BOC has great concerns that revised regulatory frameworks to deal with increased levels of distributed generation 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. More detailed responses

Form, Structure and Scope of the price controls

BOC is in general agreement with the structure of charges. BOC recommends that Ofgem study further the revenue driver linking revenue the number of units distributed and how this relates to DNO's costs. Capacity required (MW) rather than number of kWhs may be a better measure than units or perhaps a mixture of the two.

Ofgem may care to examine in more detail the operation of the K factor. BOC is not in favour of DNOs dealing with over-recovery by way of rebates to suppliers. The use of rebates is not transparent and it is less likely that final customers' costs will benefit by way of lower charges.

BOC has long argued that EHV charges should be within the scope of the price control. The DNOs state that these charges are site specific, however they are provided by monopoly providers and thus EHV customers should enjoy the same level of protection as HV and LV customers.

BOC intends to provide Ofgem on a separate and confidential basis with details of path of EHV prices applying to BOC large sites during the period of the present price control.

BOC believes that DNO's should be liable to compensate industrial customers for supply interruptions and voltage variations which cause customers loss. The compensation should be on proportionate level to the losses suffered by customers. An appropriate mechanism for allowing customers to compensated needs to be found as there is no direct link between customers and DNOs with respect to DUOS charges and the use of system agreement is between the DNO and the supplier.

BOC believe that in order to improve competition and allow better and easier bench marking between DNOs the DUOS tariff structure should be much more uniform. BOC feels that Ofgem, who will be well informed as a result of carrying the Price Control Review, will be in a good position to be more prescriptive with respect to tariff structures rather than leaving matter of design to individual DNOs.

Quality of service and other outputs

BOC regards the provision of electricity supplies at the correct voltage level and frequency as being of the utmost importance to us and our customers.

BOC has commented above on the need for proper compensation in the case that supplies are out side these parameters.

BOC believes that DNOs should be much more customer focused and not appear to hide behind their contractual relationship with the suppliers.

Distributed generation (DG)

BOC believes that it is important that the structure of charges are not changed in such a way that the balance of risk for associated with actual or potential DG falls too much upon customers.

Customers are already paying increased electricity costs by way of the RO and RO charges are re-cycled to the renewable generators.

BOC believes that DG should operate in a competitive generation market and should pay an appropriate amount for connection costs.

Customers should not be expected to pick up the cost for connection and reinforcement charges/costs for generators' failed projects. Such costs should not be allowed to be embedded in DNOs regulatory cost base and charged to customers.

Also BOC is not in favour of DNOs speculatively investing in extra capacity ahead of demand from DG projects. If DNOs wish to do this at their shareholders risk then so be it, however it should not be at the customers expense.

Assessing costs

BOC notes that Ofgem's analysis of the 2001/02 regulatory accounts show that the DNOs on average are outperforming the existing cost assumptions by approximately 22% and capital expenditure assumptions by approximately 12%.

BOC hopes that Ofgem will keep this analysis in mind throughout the price control review.

Hugh Mortimer, 22 August 2003