

Pricing Managers
Gas Distribution Networks

01 October 2010

Dear Gas Distribution Networks

**EDF Energy Response to Distribution Networks Pricing Consultation Paper DNPC08:
“Review of Standard LDZ System Charges”.**

EDF Energy welcomes the opportunity to respond to this consultation. We do not support implementation of any of the proposed options.

We have provided detailed comments to the specific questions asked in this consultation as an Appendix to this letter. The key points of our response are as follows:

- These proposals have not been subject to open and transparent industry discussion and development. We are confident that other more appropriate options could be developed than those presented by the GDNs.
- All of the options presented are based on the assumptions that charges and costs are perfectly matched. We do not believe this is the case and further analysis needs to be undertaken as to how the residual charges are recovered.
- The options create significant winners and losers and should have been subject to a robust impact assessment. It is not clear if the cost-benefit analysis outweighs these impacts on industry participants.
- The options are based on connection probabilities. Another option would be to develop methodologies for sites depending on which system they connect to similar to the arrangements in electricity distribution.
- Implementation of these proposals might have a significant cost implication for Shipper systems and processes. We believe Ofgem should conduct an Impact Assessment into this change to ensure that the perceived improvements to charges outweigh the costs imposed to Shippers and consumers.

These proposals have been presented to the gas DCMF as a complete suite of proposals together with analysis intended to provide justification for the change. We do not support this analysis and believe that better proposals could have been developed had transparent discussions on this issue commenced within the DCMF at an earlier date. We believe that this would have allowed Shippers to participate in this review and allowed the industry to develop a new methodology that better

met the relevant objectives. We note that this open approach has taken place in the electricity Transmission Charging Methodology Forum (TCMF). This has been fruitful and has ensured that the issues and impacts associated with any change are fully developed and discussed prior to being consulted upon.

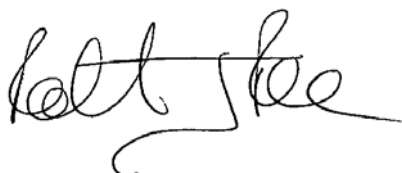
Further, these proposals have been based on the assumption that costs and allowed revenue are perfectly matched. We do not believe that this is the case and the gap between allowed revenue and costs has not been addressed. It would have been beneficial to consider this issue and how best to recover this gap from customers prior to this consultation. We note that this methodology is in contrast to that employed by both the gas and electricity transmission methodologies where the initial charges are based on the Long Run Marginal Cost and then are scaled up equally so that National Grid collects their allowed revenue.

Finally we note that this proposal has not taken Shipper impacts and costs into account. In particular, Shippers will need to undertake changes to their systems to implement these changes, including both their billing and settlement systems. These changes will come at a cost, which in some cases could be significant depending on the level of change that needs to be incorporated.

Ofgem should conduct an Impact Assessment to identify winners and losers due to this change and to identify whether there are benefits which might outweigh the costs imposed on Shippers from this change. We also believe that the number of changes that Shippers are being expected to implement should also be included in this Impact Assessment as this will also impact on the costs of undertaking system changes. We note that this year Shippers have to undertake numerous system changes to support developments in regulation and policy, all of which will constrain the resources that they can make available to support further changes. The GDNs appear to be going through a period of significant work on their charging methodologies, with one change implemented this year (DNPC05) and three further changes consulted upon this year. Given the level of regulatory and policy change that is impacting Shippers we believe that a co-ordinated approach for charging methodology changes may be more appropriate. This would reduce the burden placed on Shippers through consequential system changes.

I hope you find these comments useful; however, please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome
Head of Transmission and Trading Arrangements
Corporate Policy and Regulation

Appendix 1

Detailed Response to DNPC08 Questions

1. Should we move to a charging structure which reflects individual network costs?

We support the concept of moving to a charging structure which reflects the costs of each individual network. However, we do not believe that the methodologies presented support this objective. In particular we believe that:

- The methodology presented assumes that costs and revenues are perfectly matched. We do not believe that this is the case and there is a gap between costs and allowed revenue that needs to be funded. These methodologies do not address this and so DNPC08 is seeking to implement a charging structure that reflects individual network revenues.
- There are alternative options which have not been discussed or developed that could result in a methodology that better meets the relevant objectives than those proposed in this consultation. In particular we believe that further thought should be given as to how the residual is recovered, or whether a charging methodology based on system connection – as employed in electricity – would be more appropriate?

Furthermore, any charging structure change should be subject to a cost benefit analysis and impact assessment to ensure that the costs of the change, including Shipper costs, outweigh the benefits posed by the proposal.

2. Do you agree that based on the analysis shown, transportation to CSEPs and to directly connected loads should use the same charging function?

The analysis presented by the GDNs appears to suggest that a methodology similar to electricity distribution (based on connection point) would appear more appropriate if costs are more closely correlated to point of connection rather than load band. We therefore do not believe that a strong argument has been made in favour of this change.

3. Which of the three options set out (Parameter Update, Best Fit or Common Option) would you prefer to be implemented and why?

We do not support implementation of any of the options presented as we do not believe they have been subject to sufficient scrutiny, discussion or development. We believe that the following areas need further development and consideration:

- Treatment of the residual – as previously noted the methodology is silent on how the gap between costs and allowed revenue is recovered. This is fundamental to any charging methodology which has to be based on costs and not allowed revenue according to SLC A5.
- Use of a charging methodology based on tier of connection – given the evidence provided it would appear that a connection point methodology may be more suitable than a load band methodology.
- Storage maintenance – it is unclear why costs for LTS maintenance have only been allocated to the LTS. We believe that further analysis is required to identify which customers, or tiers these facilities support.

- Shrinkage – it is unclear whether own use shrinkage and theft is directly correlated to AQs or not. We believe further analysis is required to support this assumption.
- Implementation costs – from our perspective there is a cost associated with implementation of each of these proposals. The implementation of the best fit option will have the greatest IT costs and implications as it is changing fundamental parameters in some of our systems. We believe that all Shipper implementation costs should be accounted for to identify whether the costs of implementation outweigh the benefits.
- Benefits of change – the GDNs have not identified the scale of benefits from implementation of these proposals. We believe that a good indication would be for the GDNs to identify the monies that will be redistributed in Transportation charges as a result of implementation of this proposal.

4. Is there any reason why the proposals should not be implemented from 1st April 2012?

We do not believe that the GDNs have provided sufficient information and supporting evidence to confirm that any of these proposals should be implemented.