Pricing Managers
Gas Distribution Networks

27 May 2009

Dear Gas Distribution Networks

EDF Energy Response to Distribution Networks Pricing Discussion Paper DNPD04: "Proposals for LDZ Exit Capacity Charges".

EDF Energy welcomes the opportunity to respond to this consultation. We support implementation of either Option 2 (Charging by Exit Zone) or Option 3 (charging by network).

EDF Energy supports the development of cost reflective charges; however any charging methodology needs to strike the correct balance between cost reflective charges and complexity. In particular we would note that it may be possible to develop MPRN specific charges that are very cost reflective. However the complexities and costs associated with implementing such a precise methodology would outweigh the marginal economic efficiencies that may be gained from adopting such a complex regime. In addition any methodology needs to ensure that there is sufficient transparency and predictability for Shippers to be able to forecast any future changes in charges. EDF Energy believes that Options 2 and 3 best meet these objectives.

In relation to the specific questions raised in the consultation EDF Energy would make the following comments:

1. **Should LDZ Exit Capacity charges be based on a flat rate pence per peak day kWh per day rate in the same way as the NTS Exit Capacity charges are now or should some alternative be considered?**
   EDF Energy does not see a compelling argument for change, however this may need to be reviewed in the future. We would note that under the current arrangements NTS Exit capacity is booked as an annual product and so charges are relatively fixed, lending themselves to a capacity based charge. However going forward the GDNs will have the ability to profile their capacity bookings if required. This suggests that a commodity charge or a combination of a capacity and commodity charge is more appropriate. This will depend on the strategy adopted by GDNs in booking NTS Exit Capacity and so it would appear that this area should be reviewed in future years.

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2. **Should LDZ Exit Capacity charges be applied by Offtake, by Exit Zone or by Network as discussed in section 3.1, should they be included in the existing LDZ system charges or should some other alternative be considered?**
As previously noted EDF Energy believes charges should be applied either by Exit Zone or by Network. Of the options presented we would make the following observations:

<u>By Offtake</u>
As noted in the consultation document the mapping of supply points to Offtakes points is not consistent and may vary year on year therefore creating volatility in charges for individual supply points. This could create significant uncertainty for Shippers who would be unable to forecast mapping and so future charges. We would also question the impact of locational charges for DN Connected customers. In particular we would note that NTS charges make up a relatively small proportion of an end consumers bill, and so plays little influence of where they chose to locate on the system. This is further supported by the fact that NTS Exit charges are highest in the South East of England but there is not a large migration of domestic consumers to Scotland to take advantage of the price differential.

This could partly be explained by the fact that the majority of Suppliers do not offer regional gas tariffs. This is in part due to the fact that this functionality was not required prior to GDN sales, and so systems are still catching up with this change. Currently several Shippers have either just updated their billing systems or are in the process of doing this. It is unlikely that these systems will have been designed to support charging by Offtake point. Therefore it is not clear that Suppliers' billing systems could support this proposal and such fundamental change would represent a significant cost to Shippers if they were able to update their systems.

<u>By Exit Zone</u>
EDF Energy supports implementation of this option. We believe that this should produce predictable charges and represent the least change solution for Shippers and consumers. We would also note that as this replicates the current arrangements it has a neutral impact on cost reflectivity.

<u>By Network</u>
EDF Energy also supports implementation of this option. From a Shipper perspective the changes to our IT Systems to support this are limited. Currently our systems have to accept charges by GDN for Distribution charges and so implementation of this proposal would be an extension of these arrangements. As previously noted we believe that this proposal will also produce predictable and transparent charges.

<u>Include NTS Exit Costs in the DN Cost Analysis or Scale existing LDZ System Charges</u>
This proposal would include the NTS Exit Capacity charges within existing LDZ charges. We believe that this will reduce Transparency and so make the charges harder to forecast. In addition it is not clear that this is cost reflective. Under the current arrangements a single unit rate is applied to all DN Offtakes for NTS Exit Capacity. However no explanation has been provided as to whether a banded rate as is currently applied to LDZ Charges is more cost reflective.

3. **Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ Exit Capacity Charges in October or should no change be sought until the industry has some experience of the operation of the new regime?**
Whilst the decision on the specific form of NTS Exit reform was not reached until late 2008, we would note that the principle of charging GDNs for NTS Exit capacity was a common theme to all the UNC modification proposals. This was therefore a known element during the development of the GDPCR arrangements and during the Licence Condition change when the

April charge setting date was enacted. EDF Energy therefore sees no reason for special arrangements to be applied for the LDZ Exit Capacity charges, and would note that arguably the GDNs have already been funded for this risk through the GDPCR process.

4. **Should we introduce a separate "K" for the LDZ Exit charges, for the purposes of setting the level of the charges?**
   As previously noted EDF Energy supports cost reflective charges, and a separate management of K will help to ensure that costs are targeted at the correct market sectors. However we would note that this differs from the NTS arrangements for under recoveries from NTS Exit Capacity charges. We would note that NGG NTS has also introduced a TO Commodity charge to ensure that there is a limited within year under recovery on TO Exit Capacity revenue. We would therefore question why such different solutions to the same issue have been proposed?

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

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