

## **DISTRIBUTION NETWORKS EXTENSION TO PRICING CONSULTATION PAPER DNPC06**

### **Proposals for LDZ Charges to Recover NTS Exit Capacity Costs A Paper on behalf of all Distribution Networks**

#### **1. DNPC06**

On 18 January 2010 the DNs published a Consultation Paper entitled "Proposals for LDZ Charges to Recover NTS Exit Capacity Costs"

There were four proposals for consultation

- 1. Should LDZ ECN 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.**
- 2. Should LDZ NEC Charges to be applied by Network or by Exit Zone**
- 3. Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ NEC Charges in October or should no change be sought until the industry has some experience of the operation of the new regime?**
- 4. Should the DNs seek to introduce management of a separate K ECN relating to the LDZ ECN charges, for the purposes of setting the level of these charges?**

Note: In DNPC06 it was proposed that these charges would be called LDZ NEC charges, where NEC stood for NTS Exit Capacity. However as the acronym NEC is already used in the xoserve billing system it is necessary to change the title. These charges will be payable by DN Shippers to the DNs. For the avoidance of doubt the DN shippers will continue to pay the other NTS charges (including all NTS Commodity Charges) in respect of their DN registered supply points and DN CSEPs to NG NTS.

#### **2. Responses**

The original closing date for responses was 19 February 2010. There were four responses to the consultation, all from shippers. There were no confidential responses.

The small number of responses was disappointing and the DNs feel that it is too small to be taken with confidence as an indication of the industry view on the proposals, particularly the second one, whether the new charges should be applied by Exit Zone or by Network.

Given that new billing arrangements for the charge need to be put in place by xoserve whatever the structure, we are keen to ensure that decisions taken on the structure at this time are robust to future requirements and fully take into account industry views. The paucity of responses to date limits our ability to do this.

### 3. Key Issue – Zonal or Network Structure

We see the key issue as whether the better cost reflectivity of the offtake exit costs achieved by the Zonal structure makes this approach preferable to the Network structure given that it would lead to considerably more volatile charges, the charges would only reflect part of the DN's locational costs and the locational charge signals may have little practical benefit, particularly if any signals given are unstable. These issues were set out in greater detail in the original paper, DNPC06.

In order to illustrate the potential magnitude of these issues, the table below shows the percent changes in charges for each Exit Zone since October 2006 and the same changes averaged by Network (simple average). Based on changes over the period shown, it seems that charges applied by Network would be significantly less volatile than charges applied by Exit Zone.

Exit Zone	Oct-06	Oct-07	Oct-08	Oct-09
EA1	7.1%	70.0%	35.3%	-21.7%
EA2	8.7%	-41.1%	15.2%	-19.7%
EA3	8.1%	-45.0%	40.9%	-58.1%
EA4	9.0%	-1.7%	5.9%	-9.5%
EM1	10.0%	-97.0%	200.0%	-66.7%
EM2	14.3%	387.5%	35.9%	-17.0%
EM3	8.9%	54.7%	14.3%	-2.6%
EM4	9.4%	34.3%	16.0%	-5.5%
<b>East of England</b>	<b>8.9%</b>	<b>5.0%</b>	<b>17.9%</b>	<b>-13.1%</b>
NE1	0.0%	1800.0%	205.3%	-1.7%
NE2	9.5%	-95.7%	500.0%	66.7%
NE3	11.1%	-90.0%	0.0%	0.0%
NO1	0.0%	0.0%	600.0%	557.1%
NO2	12.5%	-88.9%	200.0%	1700.0%
<b>North of England</b>	<b>10.0%</b>	<b>-47.7%</b>	<b>226.1%</b>	<b>124.0%</b>
NT1	8.6%	-15.8%	8.9%	-3.8%
NT2	8.8%	-19.6%	9.2%	-8.5%
NT3	8.6%	-31.1%	11.5%	-9.5%
<b>North Thames</b>	<b>8.7%</b>	<b>-21.5%</b>	<b>9.7%</b>	<b>-6.7%</b>
NW1	8.2%	-47.8%	102.1%	62.9%
NW2	8.0%	18.5%	52.1%	38.4%
<b>North West</b>	<b>8.1%</b>	<b>-16.8%</b>	<b>68.8%</b>	<b>48.1%</b>
SC1	0.0%	0.0%	0.0%	0.0%
SC2	10.0%	-90.9%	0.0%	0.0%
SC4	0.0%	0.0%	0.0%	100.0%
<b>Scotland</b>	<b>8.3%</b>	<b>-76.9%</b>	<b>0.0%</b>	<b>33.3%</b>
SE1	9.0%	18.2%	9.8%	-8.3%
SE2	8.6%	-15.8%	8.9%	-3.8%
SO1	8.9%	-8.8%	9.7%	-6.9%
SO2	8.5%	0.9%	8.3%	-2.5%
<b>South of England</b>	<b>8.7%</b>	<b>-3.6%</b>	<b>9.0%</b>	<b>-5.0%</b>
SW1	8.5%	61.8%	11.8%	-1.9%
SW2	8.3%	21.3%	14.6%	0.0%
SW3	8.4%	-12.6%	18.8%	-1.7%
WA1	8.3%	14.4%	38.5%	22.5%
WA2	8.6%	-58.6%	14.3%	-6.3%
<b>Wales and the West</b>	<b>8.4%</b>	<b>-5.8%</b>	<b>19.3%</b>	<b>2.6%</b>
WM1	9.1%	73.6%	39.2%	7.5%
WM2	8.3%	82.1%	11.3%	-2.5%
WM3	8.9%	46.5%	13.5%	-2.8%
<b>West Midlands</b>	<b>8.8%</b>	<b>66.5%</b>	<b>20.9%</b>	<b>1.1%</b>

#### 4. Extended Timescale for Responses to DNPC06

In order to allow time for the consideration of this additional information the closing date for the consultation is now extended to 16 April 2010. The DNs would be grateful for as many responses as possible, even if those responses indicate that the respondent has no strong preferences for one option as opposed to another. Given the additional information now provided, it would be helpful to receive confirmation from present respondees as to whether their views have changed or not.

Responses to this extended Consultation should be sent to [enquiries@gasgovernance.com](mailto:enquiries@gasgovernance.com) to arrive by close of play on 16 April 2010.

Questions on the content of the paper can be directed to any of the following:

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