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Dear Denis

EDF Energy Response to Distribution Network Pricing Consultation Paper DNPC 01 for 0-73.2MWh

EDF Energy welcomes the opportunity to comment on this new charging methodology proposed by the Gas Distribution Networks (GDNs).

EDF Energy believes that changing the current method of charging NDM 0 – 73.2MWH customers on actual throughput through commodity charges to a fixed rate method based on capacity charges would provide a greater degree of certainty for both Transporters and customers on expected costs and revenue flows. However, for the reasons we set out below, we do not believe the proposal is acceptable since it is flawed in two important areas.

Firstly, the new capacity charges (being based on peak day estimation of volumes) relies on a forecast of throughput equivalent to that used in forecasting revenues under the Commodity Cost model. The paper states that there will be less frequent under or over-recoveries under the proposed approach because of the close alignment between billed and allowed revenue; due to the fact that the charge will no longer rely on accurate forecasts of throughput. However the paper then goes on to say that there will not be any distributional effects as the capacity charge will be set to collect the same amount of revenue as the commodity charge as its based on forecast volumes. This effectively means that there will still be variation in revenues from budgeted or forecast as the capacity charging levels are still essentially based on forecast throughput, the only difference being that one will know what level of charges to expect. We therefore see little difference between the accuracy of this proposal and the current arrangements regarding the matching of billed revenues with DN price control allowed revenues.

Secondly, we believe that the proposal will weaken efficient investment signals at the margin. Indeed, it could actually present some perverse investment signals to build capacity based on predetermined user levels based on SOQ rather than on physical or forecast volumes. We believe that forecast volumes on throughput is a much better benchmark to use when assessing the actual level of capacity to be used as the SOQ values are based on End User Categories (EUC) which are estimated and may not reflect actual throughput. We believe the current commodity charging mechanism is a better balance for calculating risk for networks and making investment decisions at the margin.

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Furthermore, with the commodity charge, costs are more cost reflective as a user pays for actual usage rather than on a predetermined amount. This at least enables DN's to calculate variance to allowed model throughout the year and eliminates any potential for parties benefiting from positive cashflow benefits. For example, if this proposal were to be implemented in April 2007 then the DN's would benefit from over recovery against actual throughput from the extra interest payments received.

Timescales
In terms of timescales, we believe the proposed implementation date of 1 April 2007 is neither feasible nor economically efficient for both Shippers and Transporters due to the level of changes to IT systems and processes involved.

In particular, we have identified that an implementation date of 1 April 2007 would represent an additional cost to our business and customers (compared to a 1 October 2007 implementation date for example) in terms of both IT costs associated with the short implementation period and the negative impact on our cash flows. We would therefore question how the use of such an early implementation date that will represent a cost to gas shippers and suppliers will facilitate Standard Special Condition 5 (c) of the Gas Transporter Licence, namely facilitating effective competition between gas Shippers and between gas Suppliers. The costs to Supplier's systems are significant and we would expect Ofgem to conduct an Impact Assessment if they were ever to consider approving it.

We also note that in order to achieve the 1 April 2007 implementation date, the GDNs will need dispensation from the UK Link Change Committee and Ofgem, and Shippers will essentially be required to implement system change with an effective lead time of 3 months, provided that Ofgem reaches its decision in early January 2007, and does not decide to conduct an impact assessment into this proposed change. We therefore believe that if this proposal is to be implemented (and we believe that it should not) the start date should be at the earliest 1 October 2007, in order to allow Shippers time to implement the required system changes. We would further note that adoption of this implementation date would not require special dispensations from Ofgem and the UK Link Committee.

We hope you have found our comments useful, but please do not hesitate to contact me on the number below should you wish to discuss our response further.

Yours sincerely

John Costa
Gas Market Manager
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