



# DNPC01 - Customer Charge Structure for the 0-73MWh Load Band

A Consultation Response by E.ON UK

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## Introduction

We welcome the opportunity to comment on the proposed changes to the current Customer Charge Structure for the 0-73MWh Load Band as proposed in consultation paper DNPC01 by Scotia Gas Networks.

## The Proposal

We support in principle the proposed change from commodity-based to capacity-based charging for the 0-73MWh Load Band. We agree that it would help to add greater certainty to distribution charges and reduce some risk associated with the current commodity-based charging regime. We also concur with Ofgem's view that there is 'no clear justification why the charge to domestic customers should be on a throughput basis while the customer charge for the other load bands is on a capacity basis'<sup>1</sup>.

Our support for this change proposal does not, however, extend to the recommended implementation date of 1<sup>st</sup> April 2007. We consider that this timescale is too short to implement such a fundamental change. Our key concerns are summarised below:

**Customer Pricing / Sales** – Pricing customers is a complicated process and pricing / sales systems developed on the current commodity-based regime would need to be changed to accommodate the new structure. More specifically, our input models and Gross Margin tools would need to be changed for both forecast and actuals reporting. Whilst it is feasible for these changes to be made prior to April 2007, an implementation date of October 2007 is much preferred to allow time for adequate system testing.

**Transportation Costs / Settlement** – Settlement systems are developed on file formats which would require alteration – e.g. the removal or alteration of the "CCO" charge-type. This would affect both payment and validation systems. Validation processes built around the current charging methodology for capacity, commodity and reconciliation invoices would need to be fundamentally revised. The need for an initial impact assessment internally means that an implementation date prior to October 2007 would present E.ON UK with what it determines to be unacceptable levels of increased risk.

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<sup>1</sup> DNPC01 "Customer Charge Structure for the 0-73MWh Load Band", page 1

**Customer Billing** - This change would require a re-think of the applicability of standing charges to customers and a review of current standing charge levels to ensure adequate pass-through of costs and the prevention of unnecessary customer price changes.

**AQ Review** - This proposed change would place much greater significance on the accuracy of SOQs for the 0-73MWh Load Band than currently. For the 0-73MWh Load Band, SOQs are intrinsically linked to AQ level and cannot be nominated as a separate value, unlike the >73MWh Load Band. Inherently, this then places greater significance on the AQ level for each customer.

In recent years, a number of initiatives, such as Mod 0640, have aimed to drive shippers to improve accuracy of their AQs for their >73MWh Load Band sites and AQs around the 73MWh threshold. Rules exist, however, which prevent the alteration of an AQ level (and therefore the SOQ) where the change is less than 20 per cent or 15MWh. Under the current commodity-based charging methodology, an incorrect AQ/SOQ has less financial impact on a shipper/supplier than an incorrect AQ/SOQ, where the charge is capacity-based. Since capacity is not recoverable directly by a shipper where nominated incorrectly, we consider that the move to capacity based charging for the 0-73MWh Load Band adds greater financial risk to a shipper/supplier *if* implemented half-way through a gas year. Any 0-73MWh AQ (and SOQ) nominated as a result of the 2006 AQ Review process may not necessarily reflect the increased accuracy required by this proposal.

The AQ Review for 2006 is now complete and shipper/suppliers have been put at a serious disadvantage by the notification of this change after 1<sup>st</sup> October 2006, because they have not been able to factor this into their plan of action for managing AQs across all Load Bands. In short, we feel that any change to capacity based charging requires either a review of existing AQ Review policy or at the very least, notification in-line with the AQ Review process timetable (October to October).

### **Objectives of the Charging Methodology**

- (a) *that compliance with the charging methodology results in changes which reflect the costs incurred by the licensee in its transportation business.*
- (b) *That so far as is consistent with (a), the charging methodology properly takes account of developments in the transportation business.*

We agree that given the composition of the customer charge that gas throughput is not a direct cost driver and therefore a move to capacity-based charging is a more relevant approach. Aligning SSPs with LSPs in this respect is not something that we object to. It is important to note, however, that by implicitly placing greater Industry significance on the

accuracy of SOQs (and therefore AQs) for the 0-73MWh Load Band, a review of the AQ amendment process should be considered to allow shippers to fine tune AQ levels for <73MWh customers. This would be a fundamental Industry change and if a review is undertaken, an implementation date of October 2007 for the Commodity to Capacity change could even be in jeopardy. We therefore suggest that DNs consider this particular impact in more detail before pressing forward with their proposed plan of change.

We welcome the intention of all DNs to improve the quality of cost information they collect and would urge them to make this task a priority. If, as hinted at in the consultation paper, a proposal is going to be made to 'change the overall balance of customer charges', then we would expect notification of this intention as soon as possible and for any change to have an acceptable lead time to implementation. Equally, we would expect any price changes to correspond with the October and April timetable. Wherever possible, we would like to see fewer price changes and would urge all Transporters to consider moving to an annual price control review and implementation timetable. This would reduce the cost to shipper/suppliers of incorporating price changes into their operational systems, would add greater certainty and would enable more time for better debate and analysis by the industry of any proposals put forward by the Transporters.

- (c) *That so far as is consistent with (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.*

We agree that the move to capacity-based charging would remove an element of instability caused by commodity-based charging. We welcome measures to reduce DN under or over-recovery from forecast and measures that result in fewer price changes.

We consider, however, that the implementation date of 1<sup>st</sup> April 2007 is contrary to the relevant objective of facilitating competition. As highlighted earlier in this response, the lead time this implementation date permits is inadequate to allow the re-allocation of development budgets, re-design, and testing of any system changes. As this change impacts multiple areas of a shipper/supplier business and all in different ways, we consider that an implementation date of *at least* October 2007 would be more equitable and would better facilitate competition.

We reject the recommendation in the consultation paper that introducing the change at the beginning of a formula year (i.e. 1<sup>st</sup> April) is beneficial to the stability of prices. By delaying implementation, to fall in-line with the Licence obligation of making charging methodology changes on 1<sup>st</sup> October, there is greater time for a more considered review of the prices by the Industry leading to more predictable changes. This would also provide shipper/suppliers

with reasonable notice and therefore place all on a more even footing, regardless of existing system development plans and financial forecasts for the current gas year.

## **Conclusion**

Whilst E.ON UK supports, in principle, a move to capacity-based charging for 0-73MWh Load Band customers, we object to the implementation date of April 2007. The implications of this proposed change are far-reaching from a shipper/supplier perspective and of most concern is the impact on the current AQ review / amendment process, which is not even considered in the consultation paper. With all of this in mind, we strongly believe that an implementation date before October 2007 would not allow sufficient time for an adequate impact assessment by either DNs or shipper/suppliers and we urge DNs to re-consider the timescale put forward.