DN CONSULTATION REPORT ON DNPC 01

Customer Charge Structure for the 0 – 73 MWh Load Band

1. Introduction

This report is issued on behalf of all DNs in pursuance of Standard Special Condition A5, paragraph 2 of the Gas Transporters licence.

The DNs are: National Grid Gas Distribution, Northern Gas Networks, Scotia Gas Networks (Scotland Gas Networks plc & Southern Gas Networks plc), Wales and the West Utilities.

2. DNs Initial Proposal

The proposal detailed a change to the 0 – 73.2 MWh load band customer charge from commodity based to capacity based. Currently the customer charge for the 0-73.2 MWh load band is a charge per actual kWh transported to the supply point. As such the monthly charge varies with changes in monthly throughput through the year. It is proposed that the customer charge for the 0-73.2 MWh load band should be changed to a charge based on the capacity (SOQ) of the supply point. This would make the monthly charge to any particular supply point relatively stable, only varying with the number of days in the month.

3. Summary

There were 5 responses to the consultation paper.

Suppliers & End User Associations	
EDF Energy	EDF
Gas de France	GDF
EON UK	EON
Centrica	CEN
Statoil (U.K.) Limited	STUK

Four respondents (GDF, EON, CEN, STUK) supported a move to capacity based charges in principle and agreed that it would produce greater certainty to distribution transportation charges. However, concerns were raised about the proposed implementation date, the derivation of supply point SOQ, invoices and file formats and any effect on RBD.

One respondent (EDF) did not support the proposal.

4. Detailed Responses

The following section details concerns raised in responses.

4.1 Implementation Date

Four respondents (CEN, GDF, EON, EDF) indicated that an implementation date of 1st April 2007 would not leave sufficient time for them to update their internal systems and perform adequate system testing.

One respondent (EON) stated that any change to capacity based charging should be in line with the AQ process timetable, which is October to October.

One respondent (STUK) supported an implementation date of 1st April 2007.

DN Response:
While the DNs understand the concerns that have been raised with the proposed April implementation date, they continue to believe that implementing the capacity based charge in October would introduce an unnecessary source of instability in the transportation charges. Since the capacity charge, because it is replacing a commodity-based charge, would need to be set at a level to recover two thirds of the target revenue in the period October to March. A charge set at this level would then be too high to apply for a subsequent full year meaning the charge would need to be reduced the following October and then increased again the following October. An April implementation would remove this instability.

4.2 Rbd and Suppressed Reconciliation

One respondent (CEN) believed that the proposed change would affect the RBC charge in RbD and that suppressed reconciliations would affect the level of the RBC charge.

DNs Response:
The RBC charge (Aggregated NDM Reconciliation Charge – Commodity Variable Component) would remain a valid charge and would remain on the Commodity Invoice and Supporting Information file formats. The Reconciliation Invoice assigns a value to Aggregate NDM Reconciliation at the historic rates of transportation charges for the duration of the primary reconciliation. If the proposed change were to be implemented on 1st April 2007, a primary reconciliation for the period 1/01/07 to 30/06/07, when apportioned through RbD, would attract RBC charges for the portion of the energy which relates to the period prior to 1/04/07. This treatment would apply, regardless of when the primary reconciliation is processed. If a reconciliation were to be processed in January 2009, for the calendar years 2007 and 2008, the portion prior to 01/04/07 would still attract RBC charges.

A suppressed reconciliation is an example of a reconciliation charge which may not flow immediately through reconciliation. When the charge is released from suppression and included on an invoice, RbD charges would be calculated using historic transportation rates for the period of the primary reconciliation. Thus RBC charges would continue to appear on the invoice, although values may dwindle as the majority of primary reconciliations flow.

Therefore, there are no plans to disable the RBC charge and RBC charges would continue to appear on the Reconciliation Invoice, in relation to the RbD smear of historic primary reconciliation periods, for the foreseeable future.

4.3 AQ Review

One respondent (EON) expressed concerns regarding the reliability of the AQ review process and the use of AQ values to calculate the SOQ, to which the charge would be applied, for the 0 – 73.2 MWh load band.

DNs Response:
Although the proposed change would increase the proportion of revenue recovered on a capacity basis, it does not introduce capacity based charges. LDZ capacity charges for the 0 – 73.2 MWh load band are already based on the SOQ, calculated from a supply point AQ. Therefore, we believe any issues with the AQ process should be raised through the appropriate channels and should not be a reason to delay the proposed change.

4.4 Matching of Billed and Allowed Revenue

One respondent (EDF) was of the opinion that the proposal would make the matching of billed revenue to allowed revenue less accurate.

DNs response:
If the customer commodity charge for the 0-73.2 MWh load band is changed to one based on the supply point capacity, as is proposed, it would remove 28% of billed revenue from being volume sensitive and bring the volume sensitivity of billed and allowed revenue (under the current price control) virtually into line. The proposed change would very largely remove the under- or over-recovery caused by temperature variations (under the current price control) and therefore make some price changes unnecessary and reduce the size of the changes which are necessary.

4.5 Invoices and File Formats

One respondent (CEN) asked if a new charge type would be required and therefore require a change to the invoice file format.

DN Response:
xoserve are currently evaluating the proposed change. Their initial view is that a file format change would be unlikely. However, until a Business Evaluation Report has been produced by Xoserve these issues cannot be addressed in full. The DNs understand that any changes to file formats would impact Shippers and would have to go through a formal consultation process with the UKL committee. In order to avoid these issues for an implementation in April 2007,

the DNs are now proposing a means of implementing the changes in the interim that does not require a new charge type or an invoice file format change.

4.6 Investment Signals

One respondent (EDF) believes that the proposal will weaken efficient investment signals and possibly create perverse investment signals as they believe that forecast volumes is a better benchmark to use.

DNs Response:
The proposal only deals with how charges are levied and has no effect on the availability of forecast volumes or SOQs which are used in investment decisions.

4.7 Impact on Industrial Commercial Market

One respondent (GDF) expressed concern that quotations they provided to their larger groups including smaller supply points would be inaccurate if the proposed change is implemented on 1st April 2007.

DNs Response:
We regret that the proposed change, if implemented in April 2007, would cause inaccuracies in historic quotes. However, we believe smaller supply points within a larger group would only be a small proportion of the market. Also, where contracts are on pass-through terms the shipper would still recover the required revenue and are therefore not at a disadvantage.

5 Final Proposal

The DNs welcome the comments and general support received for the proposal contained in DNPC01. The DNs therefore propose that the customer charge for the 0 – 73.2 MWh load band should be changed from a commodity based charge to a capacity based charge, and should be implemented from 1 April 2007, subject to veto by Ofgem.

The importance of implementing the change from April 2007 has been heightened by Ofgem's Final Proposals for the one year price control, under which the DN's allowed revenue will not vary with throughput in 2007/08. This means that for 2007/8 if the proposed change is not implemented, collected and allowed revenue sensitivity to throughput would be even further apart than they are now, increasing the potential for high levels of under- or over-recovery if throughput is not as forecast due to weather. During the one year price control the allowed revenue will be insensitive to throughput whilst the collected income will remain 63% sensitive to throughput if no change is made. As a result the DNs believe that it is even more important to progress the change. All respondents were in agreement that the proposed change would remove a source of instability in the collected revenue.

In response to concerns raised by a number of the shippers and xoserve, who were concerned about the limited time they would have to make changes to the billing systems, the DNs propose to make an interim amendment to the way that the charges are billed.

With effect from the 1st April 2007 the existing Customer Charge (CCO) for the 0 – 73.2 MWh loadband would be set to zero and the new Customer Capacity Charge for this loadband would be aggregated with the standard LDZ System capacity charge for this loadband so that, for billing purposes, the combined rate would be billed through the standard LDZ System capacity charge (ZCA). Note that the CSEP LDZ System capacity charge would be unaffected since CSEPs are not subject to Customer Charges. This method of implementation for April 2007 should deal with concerns raised by shippers regarding timescales required to update their internal systems.

It is important to note that the separate rates for the customer capacity and Standard LDZ System capacity charges would be provided within the Transportation Statements so that shippers would be able to apportion the billed (ZCA) charges between these elements if they wished to do so.

This would be an interim solution until xoserve and shippers are able to update systems to accommodate the new Customer Capacity Charge required for the 0 – 73.2 MWh loadband. The standard LDZ System capacity charge will then be split out to ZCA and CCA elements at a time agreed by the Shippers and the UK Link committee, but expected not to be later than 1st April 2008.

Unless directed by Ofgem not to implement the proposed change to the customer charge, the DNs will give notice of the charges on or before 1st February 2007 in line with Network Code requirements.