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Gaz de France ESS response to: DNPC04 – Methodology for determining the balance of revenue recovery between LDZ System Charges and Customer Charges

Gaz de France ESS view and summary of points

Gaz de France ESS is not in favour of the proposed change at this time.

As a principle Gaz de France ESS supports cost reflective charging but also there should be both stability and predictability in charging methodology and statements. Where there is a significant change to costs then a case for change can be made, as demonstrated by the recent change in the capacity/commodity split. With regard to this proposal the need for change would appear to be minor and not of a pressing nature. The cost analysis presented in Table 1 of the consultation paper highlights the DN specific change proposals. This indicates only a small change overall i.e. a shift of less than 5% from the status quo, which in itself is difficult to justify when compared to the magnitude of change related to the capacity/commodity split. Furthermore, three out of the eight DNs have indicated a change of less than 2% which is within the tolerance suggested for change proposed in section 2 of the paper. To this end there does not seem to be a compelling case for change in terms of cost reflectivity over stability at this point in time, particularly so soon after the October 2008 change.

The consultation paper itself does not fully explore the impacts for shippers and customers in its attempt at evaluating change impacts. One significant impact that is not assessed in the consultation paper is with regard to supply points connected to Independent Gas Transporter (IGT) networks. Many customers who are connected to IGT networks are subject to charges via Relative Price Control (RPC) terms. The full impact for such customers is unspecified in the consultation document as only the change in Connected System Exit Points (CSEPs) are highlighted. Such customers may face a further increase in charges as a result of this change. It is also unclear as to the impact these changes to customer charges may have on IGT revenues, where they are subject to RPC arrangements.

Should this proposal be introduced in April 2009, this will have a detrimental effect on SSC A5c in that it will distort competition between gas suppliers. Industrial and Commercial customers face increased charges under these proposals. Further, where Industrial and Commercial only suppliers fix their gas transportation charges for annual contracts, these changes could result in unforeseen commercial losses. Suppliers who operate in both the domestic and I&C sector will not feel the impact of these losses on their portfolio as the two impacts will at the very least net off. A change to prices in April 2009 will distort competition in this way.

Should this change be accepted, it would be counterproductive to the stability of charging if this change were made before the planned consideration of the DN review of structure of charges which is planned for April 2010. It is likely that proposals from this review will negate some of the impacts proposed in DNPC04 and therefore these two aspects should be considered at the same point in time.

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104 or 07733 322460.

Yours sincerely

P.Broom

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