

DISCUSSION REPORT ON DN PRICING DISCUSSION PAPER DNP04 – Proposals For LDZ Exit Capacity Charges

1. The DNs' Proposals

With effect from 1 October 2012 NG NTS will levy the NTS Exit Capacity Charges for transportation to all NTS/LDZ Offtakes directly to the DNs and at the same time will cease to levy NTS Exit Capacity Charges direct to DN shippers. The DNs will then charge the DN shippers to recover the cost of these NTS charges. To do this, the DNs put forward, as options for discussion, either that new LDZ Exit Capacity Charges be introduced, or that the costs be recovered through the existing LDZ system capacity charges.

2. Summary

There were six responses to this Discussion Paper, five from shippers and one from an end-user group.

Shippers	
British Gas	BG
Scottish and Southern Energy	SSE
RWE Power	RWE
EON UK	EON
EDF Energy	EDF
End Users	
Association of Electricity Producers	AEP

All the respondents structured their responses round the four “Questions for Discussion” at the end of the paper. This report on the responses is therefore structured in the same way.

3.1 Should LDZ Exit Capacity 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 or should some alternative be considered.

All five shippers and the end-user association supported basing LDZ Exit Capacity charges on a flat rate pence per peak day kWh per day in the same way as the current NTS Exit Capacity charges. Different reasons were given for supporting this proposal, including that it would avoid complexity, it would be cost reflective because it would reflect the NTS charges, and that there was no compelling reason to change. EDF made the reasonable point that it might need to be reviewed in the future.

3.2 Should LDZ Exit Capacity charges be applied by Offtake, by Exit Zone or by Network as discussed in section 3.1, should they be included in the existing LDZ system charges or should some other alternative be considered.

By Offtake: Five of the six respondents were not in favour of charges being applied by Offtake mainly because of the likely increased variability of charges and additional costs for shippers. They also did not think there was much to be gained from increased cost reflectivity through this option, given the lack of

a stable mapping from NTS Offtake to supply point. The remaining shipper, SSE, said that there was not enough information to reach a decision, but supported either an Exit Zone or Offtake basis.

By Exit Zone: Four of the five shippers and the end-user association supported DN Exit Charges structured by Exit Zone. The main reasons given were that it would provide more stable charges than the other options, that because it was based on the existing structure of charges it would involve the least change and cost for shippers, and that it would provide the best practical degree of cost reflectivity. The remaining shipper, SSE, said that there was not enough information to reach a decision, but supported either an Exit Zone or Offtake basis.

By Network: Two shippers and the End User Association were against this proposal. The two shippers (RWE and SSE) were against because of loss of cost reflectivity, and AEP were against because they thought it went too far in diluting locational charging elements. EON did not support or oppose the proposal but said it would be the simplest to operate, in line with current DN methodology to charge the same rate across the whole Network, but would be less cost reflective than the current situation. EDF and BG supported this option along with the Exit Zone option. EDF supported the option as it would produce predictable and transparent charges and involve limited changes to shippers' systems. BG also said Network aligned charges are likely to be more to stable than the other options, easier to administer and applied in a consistent way to other DN charges.

3.3 Include in existing LDZ system charges, either including in the DN cost analysis or by scaling existing LDZ system charges.

None of the respondents supported these options, mainly because they thought they would be less cost reflective than keeping separate charges, and because they would reduce transparency.

3.4 Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ Exit Capacity Charges in October or should no change be sought until the industry has some experience of the operation of the new regime.

There was no support among respondents for an October change for the DN Exit charges. Respondents generally thought that the issue would not be material because the NTS capacity bookings and charges would be reasonably predictable, and that it would be better to gain some experience of the new system before making any changes.

3.5 Should we introduce a separate "K" for the LDZ Exit charges, for the purposes of setting the level of the charges.

Three shippers, (EDF, RWE, SSE) and the AEP supported the concept of a separate K, on the basis that it would be more cost reflective and that over/under recovery would be paid back to shippers in the same proportions

in which it arose. BG did not support the proposal as they did not see a need for it but did think that the elements of “K” should be published.

4. Next Steps

This discussion report will be on the agenda of the next DCMF on 27th July.

Following that, the DNs will publish a further discussion paper in due course. This paper will look in more detail at the options which received some support from respondents, namely a new LDZ Exit Capacity charge based on a flat rate pence per peak day kWh to be applied by Offtake, by Exit Zone or by Network. The options which did not receive any support, namely including the recovery of the NTS costs into the existing structure of LDZ charges, will not be considered further. The paper will however also consider the changes to the UNC which will be required to implement the new charges.

The introduction of a new LDZ charge type constitutes a change to the Charging Methodology so that a full Pricing Consultation will be required under the Licence. This will not be done till closer to the implementation date, 1 October 2012, so as to be able to take account of any relevant changes which may occur between now and then.

5. Questions

If you have any questions on the above report, or wish to discuss any issue further, please contact any one of the following:-

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