Pricing Managers
Gas Distribution Networks

18 November 2009

Dear Gas Distribution Networks

EDF Energy Response to Distribution Networks Pricing Consultation Paper DNPC05: "Methodology for Determining the Balance of Revenue Recovery between LDZ System Charges and Customer Charges".

EDF Energy welcomes the opportunity to respond to this consultation; we support implementation of this proposal.

From the information provided in the appendix, it would appear that the proposed allocation of costs between LDZ System and Customer Charges is appropriate and the proposed change to the split would ensure that costs are correctly targeted at those who are causing them to be incurred on the system. In addition correctly targeting of costs at Shippers, will be beneficial to competition by ensuring that there is not a cross subsidy between market sectors. It would also appear that this proposed change will ensure that changes in the Transportation Business since 2003 are reflected in appropriate charges.

EDF Energy supports the development of this proposal from the methodology originally proposed under DNPC04. In particular we would note that the proposal to use average data from the 2007/08 and 2008/09 regulatory reports submitted to Ofgem will help to ensure that consistent data between GDNs is utilised and the impact of annual fluctuations are minimised. Whilst we recognise that this is a relatively short data set on which to base the LDZ System and Customer Charges, we would note that this is significantly more relevant that the information that was used in 2003 to set the current split. We therefore believe that charges based on this analysis will be more cost reflective and so better meet the GDNs' charging methodology than the current arrangements. Going forward we believe it would be appropriate to use an average of 5 years of historical data.

EDF Energy would note that issues have been raised with the impact that this proposal would have on iGTs and their Relative Price Controls (RPCs). EDF Energy understands that total charges will increase for legacy arrangements, and that the profit margins that iGTs make from customers not on legacy arrangements will be impacted. However given the wording of Standard Licence Condition A5, we are unsure whether these impacts are within the scope of this consultation. It would appear that the issues raised with this proposal are in fact issues with how the RPCs are set. Given the increasing size of the iGTs, EDF Energy would question why there is not a specific price control for this sector? However given that the iGTs will have 12 months from implementation before this change impacted on iGT charges, we believe that this should provide sufficient time for iGTs and Ofgem to address this issue.

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In relation to the specific questions posed within the consultation EDF Energy would make the following comments:

Question 1: Should the methodology for determining the balance of revenue recovery between LDZ System charges and Customer charges be changed from the current national basis to a DN specific estimate of the split of the relevant costs? EDF Energy believes that the balance between LDZ System and Customer charges should be based upon network specific estimates of the relevant costs. In particular we would note that the GDNs already develop network specific charges, and Shippers and Suppliers have to have systems and processes in place to support these. The introduction of network specific splits, and so network specific charges should therefore not pose an issue for Shippers and Suppliers. In addition we would note that Licence Condition A5.5 requires the Licensee to develop a charging methodology that is cost reflective. Network specific splits would be seen to facilitate this objective.

Question 2: Should the balance of costs relating to LDZ System and Customer charges be assessed using an average of an appropriate number of years for which data on a consistent basis is available for each network? An alternative would be to use the cost analysis for just the latest year available. EDF Energy believes that it is appropriate to use an average of an appropriate number of years for which data on a consistent basis is available. In particular we would note that using consistent data will ensure that costs are correctly apportioned and so the most appropriate split is used. We would note that the GDNs use a charging methodology that is common across the networks, and so it would appear appropriate to use a consistent approach to data when developing these methodologies. Further using an average of an appropriate number of years will ensure that the impact of fluctuations is minimised. We would note that ideally it would appear beneficial to use more than 2 years worth of data, however we recognise that this is not available. However the judgement will be whether this is more cost reflective than the current methodology, and so whilst arguably it would appear beneficial to use 5 years of data, it is clear that this data will result in more cost reflective charges than a split based on data from 2003.

Question 3: Should the balance of charges relating to LDZ System and Customer charges be reviewed at the beginning of each Price Control period, except in exceptional circumstance? EDF Energy supported the introduction of modification proposal 0186 on the grounds that it provided Shippers with predictability of where distribution charges were going. From a Shipper's perspective it is the predictability of charges that is of paramount importance, with stable charges being a secondary issue, as this allows us to ensure that any future changes are incorporated into our pricing strategy. Updating the rebalance every time that charges are changed would detract from this predictability, especially as the main driver for this appears to be driven by the AQ review and associated impacts on SOQ, which the GDNs have limited visibility of. In addition only rebalancing the charges when a set threshold was breached would also detract from this predictability, as Shippers and Transporters would be required to guess when this threshold breach would take place in the future.

EDF Energy therefore believes that these charges should be rebalanced every 5 years. This could coincide with the start of a new price control, when the GDNs are required to report their costs to Ofgem, or with the re-setting of Seasonal Normal Demand which EDF Energy understands has a significant impact on AQs and SOQs. This would provide Shippers and consumers with predictability over their future charges, whilst also helping to ensure that charges are cost reflective. We would also note that given Standard Licence Condition A5, the GDNs would still be required to ensure that there charges are cost reflective and so they would be able to re-balance their charges if there was a significant divergence from the proposed split. We would expect this divergence to be at least 3% as there will be a cost associated with incorporating this change into Shipper's pricing structure. We believe that this will ensure that charges are as cost reflective as possible, whilst also promoting competition by providing certainty to Shippers of when any re-balancing would occur. We would however note that to aid visibility and predictability around the charges it would be beneficial if the GDNs could update Shippers and the industry on how their cost structures were progressing. We would suggest that this would be best accommodated through the mod 186 report.

Question 4: Is there any reason why the proposal should not be implemented from 1st April 2010? The issue around the appropriate LDZ System and Customer Charge split was first discussed in October 2008, and so Shippers and consumers have been aware of these issues for over 12 months now. Implementation of this proposal from 1st April 2010 would in effect have given impacted parties 18 months notice of the change. We therefore believe that it is appropriate for this proposal to be implemented with effect from 1st April 2010.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 0203 126 2312) if you wish to discuss this response further.

Yours sincerely

Seb Eyre

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