Representation

Draft Modification Report

0382 - Reducing the capacity element of LDZ system charges for SSPs

Consultation close out date:	12 September 2011
Respond to:	enquiries@gasgovernance.co.uk
Organisation:	**EDF Energy**
Representative:	Stefan Leedham
Date of Representation:	07 September 2011

Do you support or oppose implementation?

Not in Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

EDF Energy believes that network charges should be cost reflective. Ofgem accepted in December 2007 the modification of system charges to a 95:5 weighting from a 50:50 weighting based on analysis provided by the GDNs which showed that only 4-6% of costs were related to gas throughput. There has been no evidence to support the view that the cost associated with throughput has varied significantly from this amount. Without this evidence there does not appear to be a strong reason to move away from the existing capacity based charging arrangements. We have also not identified any strong arguments that the existing charging structure creates a barrier to entry.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

Effect on volatility of prices: the commodity charge is a function of consumption which is historically more volatile than the system offtake quantity (SOQ). Implementation of this proposal modification will increase the need for GDNs to adjust charges as a result of disparity between forecast and actual throughput. This volatility may be unfavourable for shippers with fixed price contracts for supply and reduced predictability of costs may deter competition and market entrants.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

The proposal would implement charges which would skew GDN revenues away from summer months and towards winter months to reflect seasonal gas throughput. However, it would appear that a 50:50 charging structure would not be cost-reflective as analysis shows that the volumetric component of GDNs' costs amount to only 4-6% of total cost.

Under the existing charging structure there may be adverse cash-flows during summer months due to a mismatch between revenue and costs. However, a shipper could overcome this issue by having a pricing structure that more closely reflects the structure of charges, for example through the introduction of standing charges.

The increased volatility of costs as a result of heavier weighting in favour of the volumetric related component could be a more significant barrier to entry for competitors, especially smaller players with an active policy of encouraging energy-saving technology.

Impacts and Costs:
What analysis, development and ongoing costs would you face if this modification were implemented?

None

Implementation:
What lead-time would you wish to see prior to this modification being implemented, and why?

If Ofgem were to approve the modification, then we would prefer a lead-time of at least 12 months and for the implementation date to be aligned with the normal 1st April update of GDN charges. Therefore, our preferred implementation dates would be either 1st April 2013 or 1st April 2014. This would minimise the impact on all shippers' fixed price contract customers.

Legal Text:
Are you satisfied that the legal text will deliver the intent of the modification?

Yes

Is there anything further you wish to be taken into account?
Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No