RWE npower

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Gas Distribution Price Control Review Updated Proposals Document

Dear Joanna,

RWE npower welcomes the opportunity to respond to the above consultation and does so on behalf of all its licensed gas businesses.

As in our previous responses we have not commented on financial issues or issues relating to GDN capex, repex, and opex requirements/incentives. Instead our comments are directed at those specific issues in the consultation where we have specific comments, queries or concerns.

Capacity outputs incentives

Whilst we appreciate Ofgem intend to consult separately on what are appropriate interruption incentive values within an interruption capacity incentive we are not convinced that NSL customers will find it attractive to remain interruptible under the new regime. To the extent that GDNs receive any bids for interruption from NSLs, we believe these are likely to closely reflect the GDNs avoided investment cost. It is crucial therefore that these costs are accurately assessed as GDNs should not be exposed to windfall gains or losses in the event they are left with no option but to reinforce their networks to alleviate all current constraints. We support the principle of a 100% sharing factor for this incentive and bearing in mind the uncertainty associated with the first round of interruptible capacity auctions a narrow cap and collar (10%) would seem appropriate in the first instance.

With regard to the NTS flat capacity incentive we again recognise Ofgem intend to consult separately on the values associated with this incentive in light of recent OCS bookings. However, it would be premature to assume these values should based on the retention of NSLs for reasons stated above. We support symmetry of sharing factors and caps/collars across all capacity output incentives but are not convinced that the NTS flat capacity incentive needs to reflect potential changes to CV bearing in mind that the current GSMR gas specification (with its defined CV range) will remain in place until at least 2020.

Finally, with regard to NTS flexibility capacity we see no need to incentivise GDNs bookings at this stage and hope that in due course the flawed concept of NTS flexibility capacity can be removed from the UNC completely.

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Loss of meter work revenue driver

Ofgem's proposal to introduce a revenue driver relating to the loss of meter work is both welcome and sensible bearing in mind our previously expressed concerns about what we considered were overly pessimistic assumptions used by GDNs about how much meter work they were likely to retain. We also believe a revenue driver is preferable to an incentive mechanism in this case.

We note that significant differences exist in the tipping points and unit costs per meter job that will be applied to each GDN but are not in a position to comment on the reason for these or whether they are justified. However, we trust that Ofgem's analysis of the number of metering jobs (which we assume excludes PEMS metering jobs) and the opex cost breakdown between meter work and emergency service provision is sufficiently robust to support these conclusions. Also we assume that the fact that GDNs will be subject to a revenue driver in this area should mean that loss of meter work is not used as the basis for GDNs increasing their PEMS meter charges, or offering a diminished PEMS service.

It will be important to ensure that the number of non PEMS metering jobs are reported on and made visible to shippers as part of the RIGs and Ofgem should take steps to ensure that this data is sufficiently robust.

Bearing in mind Ofgem's approach assumes that none of the resources currently involved in meter work could be allocated to other activities beyond the tipping point, it would seem appropriate to apply the ongoing efficiency savings used in the main opex control to the loss of meter work unit cost revenue driver as well.

Shrinkage arrangements and environmental emissions

Whilst we recognise the simplicity associated with basing the gas reference price used in the shrinkage incentive on the day ahead price we are concerned that this may force the GDNs to change the way they currently purchase shrinkage, and potentially increase the cost of shrinkage provision. Bearing in mind that the leakage element of shrinkage appears to be largely fixed, this would suggest to us that GDNs may be able to procure this element more efficiently by forward contracting, rather than relying on daily purchases of similar quantities.

We believe that the gas reference price should reflect the most efficient basis by which GDNs acquire shrinkage gas. Whilst we have little information to judge what basis this should be, we are not convinced that using day ahead pricing achieves this. An alternative may be to include a mixture of day ahead pricing for the throughput dependent own use gas element of shrinkage, and forward pricing for the fixed leakage and theft elements of shrinkage.

As regards the environmental emissions incentive we believe Ofgem are right to incentivise GDNs to reduce emissions in this way. Whilst we think it appropriate for 100% sharing factors to apply within a cap and collar we do not believe the cap and collar should be symmetrical, and believe that GDNs should face greater financial exposure in the event their environmental emissions exceed the projected fixed element of shrinkage represented by leakage.

Bearing in mind Ofgem’s comments in the initial proposals document about the robustness of the data used in the leakage model and the model's adequacy in general, and the statement in this consultation that the uncertainty of the model is around +/- 20%, data validation and governance of the model will be critical to ensuring this incentive delivers real reductions in GDN environmental emissions. To this extent we welcome Ofgem’s proposals to specify the model/methodology used to calculate leakage in a document governed by the licence, and would expect shippers to be consulted on such a document before it is implemented or amended. We also welcome Ofgem’s proposals on auditing the model bearing in mind this has not been undertaken recently.

Network extensions

Ofgem's Updated Proposals confirm the basis on which facilitating network extensions will be taken forward, which we broadly support. However, time will tell the extent to which this approach is successful and the extent to which material cross subsidies in favour of disadvantaged communities will come about.

GDNs can now be expected to develop detailed proposals to amend their connection charging methodology statements to accommodate Ofgem's proposals, and we would expect these to be subject to consultation with shippers in the same way as pricing methodology's for transportation charges are. It is not clear to us however that standard licence condition 4b provides for such consultation, and to the extent it does not we would expect this to be corrected.

Funding of xoserve

We are disappointed Ofgem remain so committed to a user pays approach to xoserve funding bearing in mind the inadequacy of their impact assessment, the minimal user pays service lines and the considerable work that will be required to establish appropriate governance arrangements.

As a result of this decision we fully expect transporters/xoserve to use every opportunity to argue that variations to core services (however minor) should be treated as user pays, in an attempt to claw back at least the £2.83m p.a. of revenue that has been excluded from their opex costs. We also expect transporters/xoserve to use arguments over what constitutes a core service to delay implementing UNC modification proposals they do not support.

In our response to the GDPCR Initial Licence Drafting consultation we expressed concerns that the proposed licence drafting did not seem to require shippers to be consulted on changes to the user pays service lines, or the methodology by which these services will be charged for. We believe it is essential that these concerns are addressed and that fair and effective governance of user pays services is established through proper alignment of the relevant licence conditions, the UNC and the Agency Services Agreement.

We also remain concerned about the adequacy of the licence condition requiring GDNs to provide defined agency services collectively, as stated in our response to the Initial Proposals consultation. We see nothing in this consultation, or in the GDPCR Initial Licence Drafting consultation, to suggest these have been addressed, and would expect Ofgem to address these concerns in the proposed final licence drafting.

We hope you find our comments above helpful. Should you wish to discuss them in more detail please do not hesitate to contact me.

Yours sincerely

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed