

Direct line: 020 7752 2522  
Fax: 020 7752 2384

Samanta Padalino  
Head of Gas Distribution Policy  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE



**Date** 16 September 2005

Dear Samanta,

### **Structure of gas distribution charges – initial proposals**

Thank you for giving EDF Energy the opportunity to respond to Ofgem's initial proposals for the structure of gas distribution charges. We have answered each section of the consultation in the same order in which they were published.

### **Cost reflectivity**

EDF Energy believes that where appropriate, cost reflective charges should be in place in order to better target costs to those who incur them. However, we recognise that there is significant cost associated with moving to more cost reflective Use of System (UoS) charges which require DNs, shippers and suppliers to invest in new customer billing systems. We therefore welcome Ofgem's decision not to move away from the current system at this time due to the level of complexity involved.

### **Capacity and Commodity split**

As stated above, cost reflectivity is a principal which EDF Energy supports. However, we do not believe that it has been proven that moving away from the existing 50:50 capacity and commodity split in either direction would be more cost-reflective. Indeed, Ofgem has stated in the past that interruptible customers have been getting a free ride in being subsidised by "firm" customers. Moving to a higher capacity /commodity split of 70:30 or 99:1<sup>1</sup> could increase the distortion in revenue flows between different users. Ofgem makes reference to this in para.4.26 of their consultation whilst pointing out the importance of aligning the change in the capacity/ commodity split with the reform of the interruptions regime in 2007 in order to flush out the true value of changing the current parameters.

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<sup>1</sup> Options 2 and 3 in the consultation

Also, an increase in this direction, and thus options 2 and 3 in the consultation, may result in suppliers passing on this extra unaccounted for cost in their customer bills which would not be appropriate at this point in time.

We therefore believe that there should be no change to the 50:50 capacity and commodity split in the interim period until the whole NTS and DN offtake arrangements are reviewed in 2007. At this point, an impact assessment can be conducted to assess the optimum balance of capacity and commodity charges.

### **Economic test**

EDF Energy supports a review of the Economic Test with a view to providing greater transparency of the process relating to the treatment of new connectees. We believe that where the ET is met the extra transportation revenue from the new offtake should be used to reduce the connection charge in order to make full and economic use of existing pipework. This would make the ET process more asymmetric.

### **CSEP Administration Charge**

EDF Energy recognises that the Connected System Exit Point (CSEP) charge has been coming down in recent years but could be handled more efficiently through an automated system rather than using labour intensive off-line systems. However, we believe that this system may be costly to implement by each DN. We agree with Ofgem's view that DNs should review their current administration processes, over the next few years, to assess if costs are rising, and whether an automated system would be more cost effective due to the rising number of CSEP customers.

We hope you have found our comments useful but if you have any queries or would like to discuss any of these comments further, please do not hesitate to contact either me or my colleague John Costa (on 020 7752 2522).

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long, sweeping horizontal stroke extending to the right.

**Denis Linford**  
**Head of Regulation**