Gaz de France

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Dear Samanta,

<u>Gaz de France ESS response to:</u>
<u>Structure of gas distribution charges</u>

Gaz de France ESS view and summary of points

Our comments on this proposal are related mainly to the issue of capacity/commodity split.

Capacity/Commodity Split

As a general principle, Gaz de France ESS is in favour of cost-reflective charging wherever practicable. The analysis presented in the consultation document suggests that the current 50/50 capacity/commodity split is arbitrary and does not reflect the real costs of providing gas distribution networks. On this basis it would seem that a more cost-reflective approach for DN charging would be to adopt either option 2 or option 3 as the rationale for maintaining the status quo cannot be justified. As a shipper/supplier without complete information about DN costs, Gaz de France ESS are unable to state a preference between either option 2 or 3; however it is important that this decision is informed by information not only from Transco but also from the projections of the new DN owners.

An added benefit of an increased capacity charge ratio would be the stability of DN charges year on year. This is something Gaz de France ESS would welcome as it provides more certainty to shippers and consumers.

Interruptions Reform

The re-weighting of charges towards either option 2 or 3 clearly indicates that capacity is currently undervalued. It therefore follows that the contribution from interruptible off-takes from the system in terms of capacity discounts is likewise undervalued currently as these provide an economic alternative to incremental capacity investment. Gaz de France ESS is in favour of the principle of cost-reflectivity as previously stated and it is our view that the level of discount given to interruptible off-takes should fully reflect the value these supply points give to the system under any future regime. There seems to be an inconsistency in the argument that interruptibles may currently be perceived as “free-riding” the system, compared to the case being made that capacity is currently undervalued. This could be addressed by reforms being

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made to the structure of interruptions payments as part of any proposed reforms.

There is scope to restructure interruption arrangements should the capacity/commodity split be changed and this could in turn reflect the locational benefit to the system and offer customers more choice as to the level of interruptible availability service they can offer according to their particular processes. A reward system incorporating an additional utilisation bonus may be worth considering.

Distributional Impact

Table 1.1 in the consultation document illustrates possible impacts on consumers under option 2 and 3 scenarios. The table represents costs prior to any interruption discount offered and as such represents a transporter "over-recovery" position; it is difficult to determine meaningfully the distributional impact when discounts have been factored in. Nevertheless, it is important that that charges are distributed on a cost-reflective basis and fully reflect the cost of 1 in 20 peak demand requirements of NDM consumers.

Other Aspects

There may be additional costs if suppliers need to change systems in order to incorporate a fixed charge element to their customer bills to reflect flatter charges, a lead-time of 12-18 months should be more than adequate for suppliers to implement these. Should consumers insist on no standing charges as a contract option then there may be the potential for suppliers to incorporate a suitable risk premium; therefore consumers may see higher costs. An added benefit for consumers choosing standing charge contract options would be reduced seasonality to their overall bills.

There is likely to be some small environmental benefits in terms of energy saving but consumers would tend to be relatively price inelastic to the distribution charges compared to cost of gas.

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104.

Yours sincerely

P.Broom

Phil Broom
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