DRAFT IMPACT ASSESSMENT ON DNPC03

FPAG does not agree with the proposed changes and the supporting arguments appear to us to be very thin. However, the key point is that if the proposal does go ahead it is essential this is reflected in a lower Cost of Capital in the price control. The GDNs would then be uniquely stable businesses with almost guaranteed year on year income – unparalleled virtually anywhere else. Ofgem, in the impact assessment, accepts in 6.20 – as is clear – that the proposal transfers risks from the GDNs to shippers and this must be reflected in the Cost of Capital.

On the impact assessment:

- Ofgem accepts that many of the costs are fixed and neither capacity or commodity related. There seems to be no reason for attributing nearly all of them to capacity and hence a disproportionate part of them to households.
- The impact assessment evades in 5.2 the issue of standing charges or higher rates for the first units. It is quite likely that suppliers faced with more fixed costs will adjust the structure of their retail tariffs to a degree.
- Similarly the treatment and incentives to energy efficiency is unsatisfactory. There is no reference to carbon costs in spite of the Sustainable Development Commission criticisms of Ofgem's approach and use of carbon costs – nothing seems to have been learnt on this point. The carbon cost should be counted as part of the commodity cost and, at the very least, all the fixed costs should be attributed to GDN Commodity Charges in the light of the carbon considerations.
- No attempt has been made to quantify the impact on competition and the benefits to customers. Overall this is likely to be extremely small unless Ofgem have reasons for thinking otherwise.

The proposed changes will obviously not have a massive impact. If the cost of capital is clearly reduced as a result of these proposals, then they may be worth while. Otherwise the case is not proven and it seems likely that the overall impact will be adverse.