Gaz de France

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Response to DNPC03 LDZ system charges – Capacity/Commodity split and interruptible discounts

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General

Gaz de France ESS is generally supportive in principle of the proposed change in methodology to a 95:5 capacity commodity split for LDZ charges and this response largely re-iterates our comments made in response to DNPC03 consultation.

We welcome the fact that the information from the DNs used to inform the redistribution effects in this consultation has been updated. Using BS SOQ as a proxy for DM SOQ in this instance gives a better estimate of the redistribution effects for the reasons Ofgem have stated.

Cost Reflectivity and redistribution effects

It is a licence objective for transporters to recover their costs in a cost reflective manner and in a way which facilitates competition between suppliers. The evidence presented in the consultation paper suggests that around 95 % of Distribution Network's costs are fixed. Reflecting these fixed costs via fixed capacity charges fits with the principle of cost reflective charging. This also indicates that under current charging methodology there is a cross-subsidy in favour of low load factor sites. A move to the proposed methodology would remove this cross-subsidy and better facilitate competition through cost reflective charging.

Supply Contracts

Stability of transportation charges year on year is important for suppliers and customers alike when setting fixed contract prices which span charging years as this reduces the risk associated with such contracts. Also, for suppliers who offer pass through transportation charges to their customers, reconciliation amounts, either during or at the end of a contract are less significant and therefore pose less risk.
However, one aspect to consider here is wherever suppliers recover their revenue on a unit rate basis then additional fixed costs will not be recovered should the customer under consume against forecast volumes.

This may have the effect of increasing risk premium or additional end of contract reconciliation between suppliers and customers.

Additional Modelling Required
To date there has been little supporting evidence produced by the DNs to justify the assumption that charges would become less volatile under the proposed model. As part of the Final Impact Assessment, Gaz de France ESS would like to see the following analysis presented to support the claim of decreased volatility from the proposed Capacity/Commodity split:

1. Retrofit the 95:5 model individually to previous year's charges for each DN or LDZ as appropriate

2. Retrofit a smoothing model which smoothed DN charges over a rolling 3,4,5 years with the current 50:50 split

3. Retrofit the 95:5 model combined with a smoothing model as described in 2. above to see the combined effect of models 1 and 2.

The above analysis should better inform the decision making process as the true value of each model could be assessed against viable alternatives.

Interruptible Discount

Gaz de France ESS considers that maintaining the overall discount for Interruptible sites is fair. This proposal does however introduce the concept of LDZ capacity charges being levied on interruptible customers for the first time. This can be considered an appropriate interim solution before the implementation of mod 90 in 2011 and introduces interruptible customers partially to the universal firm and sell-back regime.

There are however operational difficulties faced by suppliers both in terms of systems and charging but also with regard to customer education. We would expect the education process to be mainly conducted by suppliers but with significant support from Distribution Networks by means of supporting documentation and also by briefings at relevant forums e.g. customer operations forum and via ad-hoc requests from suppliers.

I trust these comments are helpful, if you have any queries regarding this response please contact me on 0113 306 2104.

Yours sincerely

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