

## **Summary of Arguments for and against the Move to 95/5 from 50/50 Capacity/Commodity Split Raised during the Consultation Process in 2007.**

The two main justifications for the change were:

### **Cost Reflectivity**

The GDNs considered that the cost information showed the majority of costs relate, either directly or indirectly, to the provision of capacity on the network and that only a small proportion relate to system throughput.

Ofgem accepted that approximately 95% of Use Of System costs are unaffected by throughput but considered that some of the indirect costs were effectively fixed, varying with neither capacity nor throughput. However, Ofgem considered that the fixed costs should not be recovered on a commodity basis.

### **Improved Charge Stability and Predictability**

The GDNs considered that the change would better align the effect of system throughput variations on allowed and collected revenue so reducing instability in charges and improving the predictability of charge levels.

Ofgem agreed that the change should almost entirely remove system throughput as a contributory factor to K and hence as a source of variability in charge levels and that this should provide greater stability in charge levels.

Other issues raised during the consultation were:

### **Cash Flow Risk**

Several respondents noted that the proposal transferred cash flow risk from GDNs to shippers. One respondent highlighted the cash flow risk with respect to small supply points.

Ofgem noted this impact in their Impact Analysis.

### **Standing Charges and Energy Incentives**

Several respondents were concerned that the proposal might encourage suppliers to introduce standing charges which would be bad for energy incentives and would adversely affect load low factor customers and the fuel poor.

### **Better Investment Signals**

Ofgem considered that higher capacity charges should encourage shippers and large users to align booked capacity with actual requirements, so leading to more efficient investment decisions. Higher capacity charges might also lead some large I&C loads to change their behaviour, so lowering peak demand.

### **AQ Review Process**

Ofgem noted that the AQ Review process would become more material with higher capacity charges.

### **Reconciliation by Difference (RbD)**

Ofgem noted that the proposal would significantly reduce the materiality of transportation charges subject to RbD, so reducing the level of risk faced by shippers to domestic supply points.