

Review of Customer Charges

Scotia Gas Networks

26th March 2012

Why Change?



- Final part of a programme of work agreed with Ofgem after Network Sale
- Purpose is to make the structure of Customer Charges more cost reflective by:
 - 1) basing it on individual Network costs rather than national costs
 - 2) introducing a new structure of charges which would recover the costs reflected in the Customer Charges in a more cost reflective way

Costs Reflected in the Customer Charge



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- Supply Point emergency Services Costs.
- Services Replacement Costs (including services leakage.
- Asset-Related Costs (Depreciation and Network Rates).

Proportions of Costs in Customer Charge



	Scotland	Southern	Wales & West	Northern
Emergency	21.7%	20.0%	21.5%	17.0%
Replacement	35.0%	39.6%	37.5%	29.1%
Asset -Related	43.3%	40.4%	41.0%	53.9%
Total	100.0%	100.0%	100.0%	100.0%

Proportions of Costs in Customer Charge



	East of England	London	North West	West Midlands
Emergency	19.3%	26.1%	24.4%	20.5%
Replacement	27.8%	27.2%	34.5%	34.6%
Asset -Related	52.9%	46.7%	41.1%	44.9%
Total	100.0%	100.0%	100.0%	100.0%

Summary of Proposal



- It is proposed that the new charges should be built up from 3 elements, reflecting the costs reflected in the Customer Charge:
 - Emergency
 - Replacement
 - Asset-Related
- In each case the charge element would reflect the cost evidence available

Emergency Costs



- There is no evidence that supply point Emergency costs vary with supply point size
- It is therefore proposed that these costs be recovered by a single flat rate charge which would apply to all supply points, irrespective of size

Replacement Costs



- In most Networks there is cost evidence that Services Replacement costs are higher for non-domestic supply points than for domestic supply points
- However no evidence that costs vary by supply point size within the categories of domestic and non-domestic
- Therefore for these Networks it is proposed that there should be:
 - 1) one flat rate for the 0-73.2 MWh charging band, (mainly domestic)
 - 2) a higher flat rate for the 73.2 – 732 MWh and >732 MWh charging bands (mainly of non-domestic).
- The exception would be Southern Network, which based on the cost evidence would have the same charge across all supply points

Asset-Related Costs



- The majority of the asset related costs on services which are reflected in the customer charge can be attributed to the DLCA.
- The proposers of the Mod consider that it was the intention of the Gas Act (1985) that the cost of the DLCA should be recovered from all gas customers and not just from those who benefitted from the Allowance.
- This part of the charge is therefore not intended to be cost reflective because it is to recover an allowance and not an operational cost. Two options are proposed for the recovery of these costs:-

Asset-Related Costs



- **Option 1.** A single flat rate charge applied to all supply points, irrespective of size. This would mean that the Asset-related costs would be recovered from all supply points, but with no attempt to vary the contribution by size of supply point.
- **Option 2.** A single unit rate capacity charge applied to all supply points based on the square root of the supply point SOQ. An SOQ based charge to reflect the asset related costs would mean that the contribution made was proportionate to supply point size.

Illustrative Charges

Option 1



Scotland	Pence per Supply Point per Day
AQ	
Up to 73,200kWh pa	12.0729
73,200-732,000kWh pa	13.3941
732,000 kWh pa and above	13.3941

Illustrative Charges – Option 2



Scotland	Pence per Supply Point per Day	Pence per $\sqrt{\text{SOQ}}$ per Day
AQ		
Up to 73,200kWh pa	6.8335	0.4412
73,200-732,000kWh pa	8.1547	0.4412
732,000 kWh pa and above	8.1547	0.4412

Possible Impacts – Option 1



	Scotland		Southern	
Load Band / Impact on:	Customer Charge	Total Charges	Customer Charge	Total Charges
0 - 73.2	3.6%	1.5%	4.2%	1.4%
73.2 - 146.5	(45.0%)	(10.5%)	(63.3%)	(12.1%)
146.5 - 293.1	(48.8%)	(6.6%)	(66.3%)	(7.4%)
293.1 - 439.6	(53.7%)	(4.7%)	(69.9%)	(5.2%)
439.6 - 586.1	(57.1%)	(4.0%)	(72.5%)	(4.4%)
586.1 - 732.7	(60.8%)	(3.5%)	(74.7%)	(3.9%)
732.7 - 2,198	(78.4%)	(5.1%)	(87.6%)	(5.7%)
2,198 - 2,931	(87.8%)	(5.6%)	(94.1%)	(6.0%)
2,931 - 5,861	(91.5%)	(5.7%)	(94.7%)	(6.0%)
5,861 - 14,654	(95.2%)	(5.9%)	(97.3%)	(6.1%)
14,654 - 29,307	(97.4%)	(5.9%)	(98.6%)	(6.0%)
29,307 - 58,614	(98.7%)	(5.8%)	(99.0%)	(5.9%)
58,614 - 293,071	(99.3%)	(5.7%)	(99.6%)	(5.8%)
>293,071			(99.9%)	(5.5%)

Possible Impacts – Option 2



	Scotland		Southern	
Load Band / Impact on:	Customer Charge	Total Charges	Customer Charge	Total Charges
0 - 73.2	1.5%	0.6%	2.7%	0.9%
73.2 - 146.5	(20.2%)	(4.7%)	(42.4%)	(8.1%)
146.5 - 293.1	(6.5%)	(0.9%)	(33.1%)	(3.7%)
293.1 - 439.6	4.0%	0.4%	(26.8%)	(2.0%)
439.6 - 586.1	8.2%	0.6%	(24.4%)	(1.5%)
586.1 - 732.7	10.9%	0.6%	(23.4%)	(1.2%)
732.7 - 2,198	(24.2%)	(1.6%)	(52.4%)	(3.4%)
2,198 - 2,931	(41.8%)	(2.7%)	(66.0%)	(4.2%)
2,931 - 5,861	(50.4%)	(3.2%)	(67.3%)	(4.3%)
5,861 - 14,654	(61.1%)	(3.8%)	(75.3%)	(4.7%)
14,654 - 29,307	(69.5%)	(4.2%)	(81.2%)	(4.9%)
29,307 - 58,614	(76.7%)	(4.5%)	(83.6%)	(5.0%)
58,614 - 293,071	(81.5%)	(4.7%)	(88.7%)	(5.1%)
>293,071			(93.9%)	(5.1%)