

Response to Questions received by Email

0418 0418A - Review of LDZ Customer Charges

Date: 12 November 2013

Organisation:

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Abstract:

Please publish the joint DN response to questions raised by Victoria Volossov's, Ofgem:

- How does the data support the proposed treatment of Supply Point Emergency Services costs, Services Replacements Costs (Repex), or Leakage costs under both variants (418 and 418A)

In relation to UNC Modification proposal 418 and 418A the cost data for emergency service costs reflect that the costs do not vary based upon Supply Point size and therefore both UNC Modification proposals would implement a single flat rate charge which would apply to all Supply Points regardless of size of registered capacity.

In relation to UNC Modification 0418 and 0418A the cost data for most of the Distribution Networks shows a slightly higher cost for non-domestic service replacement compared to that for domestic. This would be reflected in single flat rate for Small Supply Points and a slightly higher rate for Large Supply Points. Southern Gas Networks' data reflects no increase in costs for non-domestic service replacement compared to domestic and therefore both Modifications propose a flat rate for both small and large Supply Point charging bands. The leakage costs are included within these service replacement costs under both Modification proposals and would therefore be treated in the same manner.

In relation to UNC Modification 0418 the asset related costs (mainly service depreciation costs attributable to the Domestic Load Connection Allowance - DLCA) are proposed to be recovered on a single flat rate charge from both domestic and non-domestic Supply Points. The DNs consider that as the DLCA is an allowance covered by the Gas Act (1985) which is to be recovered from all gas consumers, that the charges should in turn reflect this. As a result the DNs did not consider that these costs should be recovered in different amounts from either domestic or non-domestic Supply Points.

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UNC Modification 0418A proposes a different mechanism for recovery of these costs based upon a pence per kWh charge applicable to domestic and non-domestic Supply Points. This would result in a higher charge for Supply Points with a large Annual Quantity (AQ) and a lower charge for Supply Points with a lower AQ. The rationale for this approach would be best explained by the Modification proposer (BGT).

- To what extent do Supply Point Emergency Services costs depending on size or throughput?

The data obtained by each Distribution Network demonstrates that individual Supply Point Emergency Service cost is not impacted by the size of the Supply Point's registered capacity or annual throughput. Costs associated with the emergency service are largely generic between Supply Points and focus upon call centre costs, DN overheads, attending the emergency call and making safe, all of which are not impacted by Supply Point size. Any costs associated with mains repair (as opposed to service repair) are not included within these costs as they recovered via LDZ System Costs.

- Do Services Replacement Costs vary only between domestic and non-domestic supply points?

As detailed within Section 3 of UNC Modification 418 (Solution) cost evidence largely supports a higher service replacement cost for non-domestic Supply Points compared to domestic service replacement costs. This stems from slightly higher costs associated with replacing larger service pipes required for non-domestic Supply Points due to their larger peak flow capacity requirement. Service replacement costs for flats within high-rise blocks are typically higher than for "typical" domestic properties; this is reflected in the higher level of domestic service replacement costs which are seen in Southern and London networks, where there is a higher proportion of such properties.