

Bob Fletcher
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31 Homer Road,
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20 September 2010

Dear Bob,

RE: DNPC08 - Review of Standard LDZ System Charges

Thank you for the opportunity to respond to the above consultation. Please see below our summary points and more detailed response to the individual questions.

Summary Points

- Changes to the current LDZ charging arrangements should not be made at this time. The Government is currently working up fundamental reforms to the market arrangements in both electricity and gas. Suppliers need to concentrate their effort towards achieving major policy objectives at present and do not need to be distracted by changes to the local network charging arrangements.
- The proposed changes to move to diverse charging structures are not consistent with assurances given during the DN network sales process and are not consistent with the move towards commonality in the electricity distribution networks.
- The proposed changes introduce further changes to supplier systems and would introduce unnecessary costs and confusion for customers on their energy bill. Other changes in the market arrangements are already putting strain on the ability for supplier to change systems further eg. FITs, changes to CCL and forthcoming levies.

Response to Questions:

Q.1 Should we move to a charging structure that reflects individual network costs?

A1: No.

The proposed changes to the structures (and methods of calculation) of charges are not consistent with the move to a common charging method for DNOs which has already been implemented in electricity. There seems to be no clear justification for aligning electricity distribution charges whilst essentially diverging gas ones. Existing uniformity allows a smaller supplier to compete in all areas of the market more easily, and diversity of form of function is a barrier to competition, potentially benefiting only the larger suppliers who can spread the significant IT costs that will arise across a wider customer base.

The information given in the consultation discusses that the costs of utilisation vary by the connection point of the supply – given that the further down the network a supplier is connected the higher the utilisation costs. This premise seems to pre-suppose that suppliers therefore could be encouraged to connect differently (i.e. higher up the network) and reduce their costs. This is clearly not feasible, there is no effective customer choice, and changes of this sort would typically result in smaller end customers seeing increased burden of costs at a time of continued economic uncertainty.

Q.2 Do you agree that, based on the analysis shown, transportation to CSEPs and to directly-connected loads should use the same charging functions?

A2: GDF SUEZ Energy UK has no opinion on the level of the CSEP charges. However, it means that IGT sites will pay more in NG and DNO charges so such customers would clearly need to understand the basis on which they were being charged and the reasons for this.

Q.3 Which option of the three discussed (Parameter Update, Best Fit, or Common Function) would you prefer to be implemented and why.

A3: None of the above should be implemented, the best option currently is no change. It is disappointing that the consultation does not discuss this option or provide a robust cost benefit analysis on the status quo relative to any of the options for change.

Retaining the status quo would:

- Retain commonality of charging in line with principles of CDCM for electricity
- Be best understood by customers
- Require least system changes, thus minimising costs for market participants and improving competition

Further, while the government is working on fundamental changes in the market, we believe that focus should, for the time being, be on key essential reforms – and we do not believe this proposal fits into this category.

Of the listed options then option A, is the least harmful but we are not convinced of the rationale for change.

Q.4 Is there any reason why the proposals should not be implemented from 1st April 2012?

A4: Again we would like to re-iterate that we feel the best option is not to change anything as the main effect of changes would be to create entry barriers for new entrants and do not bring any tangible benefit to the market.

If such a change was in any case implemented, GDF SUEZ Energy UK feels that more notice is required because:

- As a business we have already contracted with customers for fixed transportation contracts beyond this date, and will be exposed to any changes in transportation rates.
- If this is to be the implementation date, it would mean a potential distortion of the market and reduction in competition. This is because, for a period between knowing the change is to occur and knowing the exact final structures and rates, suppliers would potentially have to either:
 - Withdraw offering fixed transportation contracts on gas;
 - Be exposed to changes in transportation rates, or;
 - Include contractual clauses allowing reconciliation of the changes – meaning a fixed contract is no longer fixed.
- Suppliers will need time to implement the major system changes required and this means having enough time between the announcement of final structures and their implementation to complete such a project.

Additional Points:

- The consultation states "The potential impacts, relative to the existing charges, where there are increases in the charge levels are no greater than the impacts from annual variations to charge levels." This seems to ignore that fact that there will be a further change for annual variation (and possibly as a result of DNPC07) leading to an over all step change. This is very difficult for suppliers to manage as noted in our response to Q4.
- Further the consultation states "We have been informed that such short timescales may impact on Shipper systems which may influence the preference over the options given, i.e. some respondents may favour less cost reflective options because of the impact on their systems yet if further time were permitted they may favour other options." This statement ignores the costs associated with such changes. Shippers/Suppliers are being asked to bear significant costs to implement a change which has no benefit to them. We do not believe that the changes will facilitate competition in the supply market – indeed it has the potential to reduce it by disturbing the way suppliers and customers may wish to contract (around Fixed Transportation charges) and introducing a barrier to entry as well as additional complexity.
- How will these changes be communicated to customers? What lessons have been learned from CDCM on electricity that might apply to a process such as this?
- The consultation document states that "for the purposes of this paper we have shown results for Capacity based charges only". This implies that commodity based charges will also change (dependant on DNPC07). More detail on this is needed, for example – if Option B is chosen, does this mean that there could be different Bandings for Capacity and Commodity Charges? The work on market participants will only increase if there are more layers that need changing.

End of Response

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104 or mobile 07733 322460.

Yours Sincerely,



Phil Broom
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GDF Suez Energy UK