Representation

Draft Modification Report

0418 and 0418A - Review of LDZ Customer Charges

Consultation close out date: 02 August 2013

Respond to: enquiries@gasgovernance.co.uk

Organisation: British Gas

Representative: Rochelle Harrison

Date of Representation: 02 August 2013

Do you support or oppose implementation?

0418 - Oppose

0418A – Neutral

If either 0418 or 0418A were to be implemented, which would be your preference?

Mod 0418A is our preferred modification. Most of the fundamental issues outlined below are common to both 0418 and 0418A and so it is not possible to support either. However, 0418A is clearly preferable in the area where it differs from the original. Recovering the DCLA costs via a p/kWh preserves the intent of removing costs from domestic users. It is also the standard industry method of recovering socialised costs. We note the proposer has raised no arguments to justify distributing these costs on a per customer basis and do not believe the working group was able to establish any either.

Please summarise (in one paragraph) the key reason(s) for your support / opposition.

SGN raised 0418 to change customer capacity charges to be more cost reflective. However the whole allowed revenue is split between LDZ and customer charges and the LDZ charge percentages were made regionally specific in 2010 under DNPC05. The charging methodology was further adjusted between customer and LDZ charges under DNPC08 in 2011. Hence the remaining customer capacity charges are already regionally based and not on a national basis and so no case for change has been made.

Additionally, although the proposer has presented the conclusion that Emergency Costs and Service Replacement Costs do not vary with supply point, no evidence for this has been provided - either as part of this consultation or through the working group. We believe it is necessary for the case for change to be proven; this cannot be established without allowing the industry scrutiny of the evidence.

We feel that the intention of the DCLA legislation was to recover the connection cost from all system users and not just domestic customers. There would seem little point in the DCLA legislation removing costs from domestic customers to then effectively reapply them through Distribution Charging, as would be the case with 0418. 0418 will recover over 98.5% of the cost from domestic customers (and we note would therefore appear to be regressive in nature), whereas 0418A will recover 60.5% from domestic customers. For clarity, the current SOQ allocation recovers approximately 66% from domestic customers. We feel the peak day demand (SOQ) cost driver gives the right balance between size of customer and number of customers.

kWh-related charges are also the standard industry method of recovering socialised costs, with examples such as system operator charges and the High Distribution Costs Allowance in electricity (AAHEDC).

We note the proposer has raised no arguments to justify distributing DCLA-related costs on a per customer basis and do not believe the working group was able to establish any either.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No.

Relevant Objectives:
How would implementation of each modification impact the relevant objectives?

We feel that both modifications have at best a neutral impact on the relevant objectives and 418 could have a negative impact on relevant objectives c (effective competition between Shippers/Suppliers) as specialist suppliers for Industrial and Commercial customers could gain without the charge becoming more cost reflective.

The modification report also lacks the required supporting evidence for the proposed changes in respect of the allocation of Emergency Costs and Service Replacement Costs, which has hindered our ability to properly judge both options against relevant objective (a).

Emergency Costs: The report states that because there is no evidence that supply point Emergency costs vary with supply point size it is proposed that these costs be recovered by a single flat rate charge which would apply to all supply points irrespective of size.

It may be the case that these costs do not vary with size, but we believe that GDNs need to provide the supporting evidence to the industry and Ofgem to show that these costs are constant per supply point. Simply stating that the existing basis of charging is not supported by any evidence does not prove that a single flat rate charge is supported by any evidence.

Service Replacement Costs: The report states that there is available evidence that Services Replacement costs are higher for non-domestic supply points than for domestic supply points and that this is to be expected on the basis that non-domestic supply points will, on average, have larger services.

Again, this may be the case, however the evidence has not been provided to the industry to support this. We do however believe that it is intuitive that larger sites will have larger services than smaller sites, but once this principle has been established, it seems strange to then fix the charge within the categories of domestic and non-domestic as is being proposed. This may suggest that for service replacement costs the proposed cost allocation is actually less cost reflective than the current cost allocation.

We would also note that we can not understand the position proposed for the Southern network which is to imply, at the extreme, the same service replacement costs for a site regardless of whether it is a small domestic property or a gas fired power station.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either modification were implemented?

418A will incur less cost on the industry to change as we already have p/kWh charging with LDZ and NTS commodity and the Customer Commodity charge was in place up until 2006/07.

Mod 418 will cause domestic customers to pick up an additional £41m+ or £2 per annum per customer without clear rationale or evidence it is more cost reflective.

Implementation:

What lead-time would you wish to see prior to either modification being implemented, and why?

Any implementation should be linked with 428 as these are both distribution charge related, 428 is tied to Nexus development so we would not expect implementation until April 2015 at the earliest.

Legal Text:

Are you satisfied that the legal text will deliver the intent of each modification?

No changes required.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

The customer charges are already regional based as they are the balancing item between total revenue and the LDZ charges, therefore this change is not required and Ofgem should reject both 418 and 418A.