

## 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:** Corona Energy  
**Representative:** Peter Olsen / Tim Hammond  
**Date of Representation:** 02 August 2013

#### Do you support or oppose implementation?

**0418** - Support

**0418A** - Not in Support

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

Prefer 0418

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

We agree with the consensus expressed by both transporters and shippers that the current framework for determining the LDZ customer charge for an individual consumer, based on their peak daily consumption is not equitable; at present very large customers pay vastly more for services that cost the same to provide simply due to their high gas consumption. It is requirement of the transporter licence that costs incurred by the transporters (irrespective if they are termed “allowances”, costs or allowed revenue) should be cost reflective; that is recovered from the customers or market sector who incurred them. This is why, amongst other things, the current distribution charging methodology is structured into three distinct bands.

The proposals set out in UNC Modification 0418 are in line with this principle. We disagree however with British Gas’s assertion in their change proposal, UNC Modification 0418A that Asset related costs merits different treatment to the rest of the allowed revenue recovered through this charge. As noted in the workgroup report, the majority of the asset related costs originate from the connection of new domestic Small Supply Points (that is properties with an AQ of <73.2MWh). We fail to understand why the costs that this charging tier incurs should be cross-subsidised by other customers in other charging tiers as this goes against the fundamental principle identified above and so believe that UNC Modification 0418A, unlike the original, will be detrimental to the concept of fair cost targeting.

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0418/0418A  
Representation

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02 August 2013

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Version 1.0

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Page 1 of 2

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## 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?*

Moving to a fixed cost allocation for recovering the LDZ customer charge improves the costs reflectivity of the distribution charging methodology as these costs are relatively fixed per supply point and so UNC Modification 0418 furthers the relevant objectives.

Aspects of UNC Modification 0418A, those that are in alignment with the original proposals also further the relevant objectives. UNC Modification 0418A differs however in proposing to recover asset related costs, against the fundamental cost reflectivity principle outlined above. As overall the proposals for UNC Modification 0418A results in charges increasing for larger customers who are already contributing too much, then the net effect of the modification is that it reduces the cost reflectivity of the charging methodology and so it is detrimental to the relevant objectives.

### Impacts and Costs:

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

Any change in transportation charge methodology results in additional costs for us as we have to engage with the customer and adjust our prices to reflect the change in prices. Implementing the change at a time other than during the annual update of transportation charges will result in significant costs for shippers for no appreciable benefit.

### Implementation:

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

The proposed implementation date of 01 April 2015 provides sufficient time for us to inform customers of the reason for the transportation charges change and incorporate it into prices where appropriate. Implementing at a time other than as part of the annual update in transportation charges (April) will result in significant additional costs.

### Legal Text:

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

We have not reviewed the legal text.

### 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.*

No