

## Representation

### Final Modification Report

#### 0418 and 0418A - Review of LDZ Customer Charges

**Consultation close out date:** 10 December 2013  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** EDF Energy  
**Representative:** Mark Cox  
**Date of Representation:** 10 December 2013

This consultation is being undertaken because additional information regarding DN costs has been published following the initial consultation, and is now contained in the Final Modification Report. Representations submitted for the previous consultation do not need to be resubmitted. If you wish to submit a further response, an alternative template has been provided while this template is for those who have not responded previously.

**Do you support or oppose implementation?**

**0418** - Not in Support

**0418A** - Not in Support

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

Neither

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

UNC 418 and 418a are seeking to establish an alternative LDZ charging structure that is more cost-reflective. EDF Energy firmly supports the principle of cost reflectivity including the accurate targeting of costs. It is important that prices and charges signal the cost of an activity to ensure that costs imposed by parties (on network companies) are reflected to those parties. This drives the economic and efficient development of the networks.

However, in this case the network costs being considered (Emergency costs and Services Replacement costs) appear to be generally overhead type costs without a strong or direct driver to a particular customer or particular type/class of customer. Allocating such costs is therefore likely to be arbitrary and should be done in a manner that least distorts cost reflectivity.

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As identified in both modifications the restructuring of the customer charges will have distributional impacts. Under 418, there would be additional costs to domestic customers and under 418a there would be a reduction of costs to domestic customers but in some cases a significant increase of costs to non-domestic customers.

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

None

#### Relevant Objectives:

*How would implementation of each modification impact the relevant objectives?*

We do not believe that either modification will have a positive impact on the following Relevant Objectives as identified by the proposers in UNC 418/ 418a and within the Final Modification Report:

*a) save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;*

*b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;*

*c) that, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;*

Both UNC modification proposals state that the structure of LDZ customer charges for each DN will be more reflective of the costs that each DN incurs instead of reflecting national cost structure and therefore meets Relevant Objectives a) and b). However, neither UNC 418 nor 418a has provided clear evidence that introducing either proposed alternative charging structure will be more cost-reflective. Whilst the proposed charging structures has uncovered an extra level of granularity which may provide additional clarity on DN costs, we do not agree with the rationale that restructuring the share each type of customers pays is cost reflective.

The reapportionment of the share customers pay as proposed in both modifications will not better facilitate Relevant Objective (a) as the Licensees need to recover these costs irrespective of which customer type incurs the costs. These costs cannot be attributed to a particular type of customer and therefore the proposed alternative charging structure cannot be considered to be more cost-reflective.

The provision of a structure of LDZ customer charges for each DN instead of reflecting national cost structure may be considered to better facilitate Relevant Objective (b) as it attempts to reflect the composition of the DNs following the network sales that took place 8 ½ years ago. However, as noted under Relevant Objective (a) it is not clear that this derives any benefit.

Furthermore, there is no clarity on the detailed composition of the Asset Related Costs - Services Depreciation. It is composed of the

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statutory Domestic Load Connection Allowance (DLCA) as set out in the Gas Act (1985) and potentially some depreciation relating to non-domestic services dating back to before 1994 when many British Gas Regions gave Load Connection Allowances to non-domestic connections. However, it is not clear that to amend the charging structure for the recovery of these costs will better facilitate effective competition between gas shippers and between gas suppliers.

### **Impacts and Costs:**

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

EDF Energy will incur costs to modify internal systems in order to accommodate the implementation of either modification. We have estimated that costs to our settlements systems alone will be in the region of £10k.

We would also be required to review our pricing strategy in order to ensure that the costs incurred are attributed to the corresponding customer type.

### **Implementation:**

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

The Final Modification Report suggests a target implementation date of 1 April 2015. Delivering these changes in an increasingly congested systems development programme is challenging particularly in light of the number of other system developments that are taking place across the industry. These include Project Nexus, Smart Metering mass role out, GB gas day changes and Change of Supplier reform.

### **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.*

It should be noted that adding further charges to a customer bill that they cannot influence will impact affordability as vulnerable customers will pay proportionally more with a flat rate charge in comparison to those in the higher income deciles (on average).

These modifications come at a time when energy affordability is increasing focus and has become a key political topic. The customer need is to reduce bills and EDF Energy is actively seeking opportunities where we can help customers reduce pressures on costs of their energy bills.