Joanna Whittington
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Dear Joanna

Proposal to Modify Conditions A4, A5 and D11 of the Gas Transporter Licence

EDF Energy welcomes the opportunity to respond to this consultation. In general we support Ofgem's objective of encouraging more stable distribution prices with reduced variability between indicative and final charges. However, we believe that there are additional issues that could, and should, be explored to achieve these aims. We therefore do not support these proposals.

We note that some of the recent volatility in charges can be explained by the GDNs' licence conditions to use best endeavours to not over-recover revenues within a formula period, with percentage targets attached. Combined with the regulatory uncertainty associated with the one-year extension to the price control for 2007/08, we believe that this has created the recent charging volatility. We therefore believe there is merit in developing this licence condition so that the GDNs are able to smooth out any over or under recoveries against their core revenue over a multi-year period. We believe that this will reduce the impact that short term, annual variations will have on revenues and so create more stable prices.

For clarity, we believe that this smoothing approach should be applied symmetrically so that any over-recovery and any under-recovery would be smeared over a multi-year period. We believe that this will ensure that the GDNs' exposure under this mechanism should be neutral over the period as a whole.

We recognise the volatility inherent in a 1 October price change against a 1 April to 31 March formula period. The 1 October price change has historically been linked to the start of the gas year, and the industry has designed processes and procedures in response to this. There would therefore appear to be a benefit in aligning formula periods with the gas year. This should remove some of the volatility inherent with the mis-match between formula periods and prices, while avoiding the significant costs associated with realigning industry systems and processes.

We do, however, seek clarity as to why the GDNs have to wait until May before they know their throughput attribution and so revenue collection for the winter. We note that within five days of consumption, energy is attributed to the various sectors and consumers within the LDZ, which is then adjusted through the RbD mechanism. It would therefore appear reasonable to expect the GDNs to have a view of their revenue recovery at a much earlier stage. While we recognise that this figure would necessarily be adjusted through the RbD mechanism, we would expect the impact of this to be marginal.

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We also note that in the electricity distribution networks it is very rare for final rates to differ from indicative rates, also explaining why they require two price changes a year. However, in gas it is common practice for final rates to vary from indicative rates, partly explained by the annual price change and also by the five-month lead time for indicative rates. Historically this has led to some divergence between rates, although we note that this year the final prices for 1 October 2007 differed from the indicative rates by only 0.82% on average. We would hope that this reflects the GDNs' increasing experience of pricing and so could be seen as one of the benefits arising from the GDN sales.

We therefore believe that the current notice periods are suitable for this regime, as it provides shippers with a degree of transparency around future price changes, which can also be combined with the data that is currently published through modification 698. We would also note that under the UNC the gas transporters are required to publish final charges with a two-month notice period. If the indicative notice period were to be reduced to three months, this would leave a one-month gap between indicative and final prices. We believe that if Ofgem considers that a change to the notice periods is required, then it would be more beneficial to increase the notice period for final charges to three months.

We further note that this consultation is taking place alongside the GDN consultation to change the charging methodology to a 95/5 capacity/commodity split. We think that were a 95/5 capacity/commodity split to be introduced, then one of the benefits that it will provide to GDNs is greater stability and predictability of revenues. It would therefore appear that, under this charging arrangement, a longer indicative notice period would be more appropriate. So, for clarity, we do not support the introduction of a 95/5 capacity/commodity split on distribution charges, as detailed in our response to this consultation.

I hope you will find these comments useful, but please do not hesitate to contact me or Stefan Leedham (on 0207 752 2145, Stefan.Leedham@edfenergy.com) if you have any queries or wish to discuss this response in more detail.

Yours sincerely

Roger Barnard

Head of Regulatory Law