

Tim Davis
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
West Midlands B91 3LT

Lakeside West
1st Floor
30 The Causeway
Staines
Middlesex
TW18 3BY

1st October 2010

Dear Tim

Re: Distribution Networks Pricing Consultation Paper DNPC08 (Review of Standard LDZ System Charges)

1. Centrica welcomes the opportunity to respond to the above consultation. Gas distribution charges represent a cost to our business of over £1 billion per annum and account for approx 20% of a domestic consumer's bill. As such, proposals that will affect the level of these charges and their future predictability are a significant consideration.
2. We expressed concern within our response to Ofgem's Code Governance Review – Final Proposal Consultation that Network owners may have an incentive to seek approval of charging modification proposals in advance of a new regime being introduced; and that any charging methodology proposals should be delayed until after the new regime has been implemented.
3. Given that this is the first update in this area since 2001 it is unclear why there is now an imperative to change shortly before the inception of open governance arrangements. We believe, therefore, that this proposal should be delayed until after the implementation of the new Governance regime to ensure the benefits of the regime are applicable.
4. This would enable a fuller consideration of the detailed issues relating to the proposal. Some elements are insufficiently outlined within the consultation to form any definitive judgement at this stage. In particular we would require the necessary backing data and information about the detailed calculations to make a full assessment. The simplest and most transparent way of facilitating this would be to publish the charging models, complete with inputs and their specification. Charging models are readily available for Electricity Distribution, Electricity Transmission and Gas Transmission.
5. The methodology has been updated in a number of different ways. These include a number of changes to the approach to sampling, incorporating sampling on a regional basis, and cost allocation principles. The impact of each individual changes needs to be demonstrated to allow users to understand the impact of each change.

6. The impacts that are given show some huge price swings. To be confident in the validity of such extreme movements, we would require justification both in terms of the modelling and the real cost drivers. We believe it is incumbent on the DNs to explain how the physical nature and usage of their networks has altered in order to result in the price changes outlined.
7. The movements are clearly not simply a result of calculating on a regional basis. For example, lower band prices increase in every region. This requires a full explanation, outlining the physical changes that have occurred to justify this movement in costs.
8. We believe that such a Review as this would be better conducted through a working group, with full stakeholder engagement. This working group could be formed under the DCMF prior to raising a proposal under open governance arrangements, or potentially in the assessment of such a proposal.
9. In summary, the process for reviewing these proposals has been inadequate. We think much fuller consultation and engagement with stakeholders is required before changes with such potentially significant financial impact on customers are agreed.
10. We hope these comments have been helpful. We would be very happy to discuss them in more detail if you would find this useful. (Individual consultation questions follow in an appendix to this response).

Yours Sincerely



Andy Manning
Head of Transmission and Distribution Forecasting

Appendix- Individual consultation questions:

Q1 Should we move to a charging structure which reflects individual network costs?

11. We do not believe we have sufficient information at this stage to assess whether this proposal accurately reflects individual network costs. As mentioned above, many elements of the methodology have changed, including methods of allocating costs across the network, without full explanation. We would also note that, in contrast to electricity, there has been minimal stakeholder engagement.
12. Ideally the methodology should be forward-looking in design. This methodology effectively gives a representation of a network at the time the survey was conducted. It is therefore vital to ascertain that, firstly, this snap-shot is accurate. We have seen volatility in reported gas flows in recent history, for example due to significant metering errors, and potential swings about the number of customers in each load band. We require assurance the accuracy of this snap-shot has not been impaired.
13. Furthermore, we need to understand how the methodology will update as the networks develop in their nature and usage given that substantial changes are possible to how gas networks are used over future years. It would be very useful if DNs could indicate how tariffs are likely to move in the years subsequent to implementation. We would expect surveys to be conducted on a regular basis to maintain cost-reflectivity.
14. We would also note that the previous change relating to the balance between system and customer charge (DNCP05) utilised multiple year's data to provide an average and are unclear why such an approach is not being considered here.

Q2 Do you agree that, based on the analysis shown, transportation to CSEPs and to directly connected loads should use the same charging functions?

15. The analysis shown appears to indicate that CSEPS should use the same charging function.

Q3 Which of the three options set out (Parameter Update, Best Fit or Common Option) would you prefer to be implemented and why?

16. Any change from current arrangements will require system and process changes and so it will need to be demonstrated that benefits outweigh these costs.
17. We believe a balance is required between cost-reflectivity, transparency and simplicity. We would not support any move to introduce differences between DNs, such as Best Fit, as this introduces an unnecessary layer of confusion and complexity. Given that consumer benefit has been demonstrated from adopting a common approach in electricity, it would seem odd that structures should diverge in gas.
18. Furthermore, we do not believe all possible options for charging have been explored and would expect this to be considered further by the suggested working group.

Q4 Is there any reason why the proposals should not be implemented from 1st April 2012?

19. It is essential to have a long notice period for significant changes. This implementation date would require certainty over changes to have been reached by 1st April 2011 to ensure one year's notice is given. We would also ask DNs to share any revised impacts when modelling is updated.