

Your ref:

Our ref: ENER/G/CHARGES/DNPC05/01

**Joint Office of Gas Transporters  
1<sup>st</sup> Floor South  
31 Homer Street  
Solihull  
B91 3LT**

**23<sup>rd</sup> November 2009**

Dear Sirs,

**Pricing Consultation Paper DNPC05 – Methodology for Determining the Balance of Revenue Recovery between LDZ System Charges and Customer Charges**

Thank you for your correspondence of 21<sup>st</sup> October 2009 and the subsequent invitation to comment on the proposals from the Joint Office of Gas Transporters.

Turning to the specific questions raised in the consultation document:

**Q1. Should the charging methodology be changed so that the balance between LDZ System charges and Customer Charges for each DN is based on a network specific estimate of the split of relevant costs?**

In our opinion the current charging methodology should not be changed on the basis that the revised consultation document does not address the likely costs that will be incurred by most parties to facilitate and manage these changes. Furthermore, the concerns expressed previously by the IGT's in relation to the introduction of potential volatility in charges and also the complexity of the network specific splits have been glossed over with a few generic statements rather than providing any qualitative evidence.

**Q2. Should the balance of costs relating to LDZ System and Customer charges be assessed using an average of an appropriate number of years for which data on a consistent basis is available for each network?**

Notwithstanding our comments in Q1 above, in the event that the current charging methodology is indeed changed as per the proposal then the preference for Energetics Gas would be to assess the data using an average across an appropriate number of years rather than just the latest year available.

Furthermore using only two years worth of data does not smooth out any exceptional circumstances and major fluctuations which may have occurred in the years being analysed such as extreme winter temperatures and volatile gas prices.

**Q3. Should the balance of charges relating to LDZ System and Customer charges be reviewed at the beginning of each price Control period, except in exceptional circumstances?**

Notwithstanding our comments in Q1 above, in the event that the current charging methodology is indeed changed as per the proposal then the preference for Energetics Gas would be to review the balance of charges at the beginning of each Price Control period in order to introduce an element of stability.

**Q4. Is there any reason why the proposal should not be implemented from 1<sup>st</sup> April 2010?**

On the understanding that the previous concerns of the IGT's remain outstanding then, as noted in the consultation document, the IGT's should discuss these issues with Ofgem and hopefully resolve any concerns in relation to the ongoing application of the relative Price Control licence condition. However, as evidenced on the lengthy and complex consultations that have taken place in the electricity sector over the last twelve months (Common Distribution Charging Methodology), obtaining a timely and satisfactory response to these issues will almost certainly prove to be extremely difficult.

It is the opinion of Energetics Gas that these proposals should not be implemented until all of the remaining concerns have been explored fully and IGT's conclude the discussions with Ofgem on matters such as: -

- Volatility of future charges and the impact this would have on IGT's attracting investment.
- Potential implementation costs and running costs associated with accommodating the changes in the charging methodology.
- Potential for DN's to introduce more complex and hence less transparent cost drivers in the future.
- The impact of these proposed changes on the current RPC licence condition.
- The likelihood that these proposed changes could result in margin squeeze to the IGT's.

Notwithstanding our comments in Q1 above, if the proposal was implemented in April 2010 then the changes would have an immediate impact on charges for meters fitted immediately after this date as Energetics Gas currently use the entry point for RPC based on the date of connection of a premise rather than the date of the binding contractual agreement.

**Other Issues**

In addition to the gas transportation licence, Energetics Networked Energy also has an Independent Distribution Network Operator (IDNO) licence under Energetics Electricity. Over the last ten years the gas market has enjoyed healthy competition in both the provision and ownership of new network assets which is in stark contrast to the equivalent electricity market. One of the major contributory factors to the lack of competition in the electricity sector has been the complexity and variability of use of system charges across the fourteen monopoly licence holders. To embark on changes to the current charging methodology in gas that in effect moves towards the electricity model has to be viewed with caution.

Finally, may I take this opportunity to thank you for the opportunity to comment on these proposals and we look forward to receiving your comments in the fullness of time.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Mark Cummings', with a large, stylized flourish at the end.

Mark Cummings  
Director  
Energetics Gas