British Gas

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Dear Tim

Re: Distribution Networks Pricing Consultation Paper DNPC07 (LDZ System Charges Capacity Commodity Split)

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.

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 Ofgem should instruct Network owners to delay any charging methodology proposals until after the new regime has been implemented. As the removal of the 5% commodity element of the LDZ system charging does not represent a significant update in the charging methodology we will not be arguing to delay this change. However, we will be reviewing any further consultations issued this year with a view as to whether the proposals should be delayed until after the implementation of the new Governance regime to ensure the benefits of the regime are applicable.

The consultation asks for responses to three questions

1. Should the Charging Methodology be changed so that the capacity element of the LDZ System charges is set to recover 100% of the revenue from the LDZ system charges, and the commodity element is set to zero, compared with the current 95%/5% target split?

2. Should Interruptible supply points pay 50% of the firm LDZ system capacity charge so as to maintain the value of the discount received by interruptible supply points at its current level, on average?

3. Should this change be made with effect from 1st April 2011?

We provide views on each of these areas below

1) Should the commodity element of the charge be set to zero

We do not possess sufficient data to determine whether there are any distribution network costs which are related to the commodity throughput of the system, and that the move to a 100% capacity based charge is consequently more cost reflective.

However, accepting the analysis provided as part of DNPC03 which indicated the large majority of the 5% commodity costs related to shrinkage; and that it has subsequently been determined by Ofgem as part of the last price control that there is little correlation between shrinkage and throughput; it would not appear unreasonable to move to a 100% capacity based payment.

2) Should Interruptible supply points pay 50% of the firm LDZ system capacity charge

To maintain the average 50% discount for interruptible customers, & given a move to 100% capacity based charging, it is appropriate that interruptible supply points pay 50% of the firm LDZ system capacity charge.

3) Should this change be made with effect from 1st April 2011

We have no concerns with the charge taking effect from 1st April 2011.

Yours Sincerely

David Reeve

Head of Transmission and Distribution