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22nd May 2009

By email: enquiries@gasgovernance.com

Dear Tim

Re: Distribution Networks pricing Discussion Paper DNPD04 (Proposals for LDZ Exit Capacity Charges)

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. As such, proposals that will affect the level of these changes and – importantly – their future predictability are a significant consideration.

The predictability of network charges is especially important, given the increasing proportion of our customers that are choosing to be supplied through fixed price contracts. This places a significant and growing requirement in our business to forecast the level of charges in coming years with a high degree of accuracy. Increased predictability of charges also helps to facilitate competition, as stable, transparent network charges provide a level playing field upon which suppliers can compete, based on the same information about future charges.

We note that your paper asks for views on four main elements of the proposals:

- should LDZ Exit Capacity should be applied by Offtake, by Exit Zone or by Network;
- should these charges be based on a flat rate pence per peak day kWh per day rate in the same way as the NTS Exit Capacity charges are now;
- should the misalignment of NTS and DN dates for changing charges be addressed by the DNs (e.g. seeking to change charges in October); and
- should a separate "K" be introduced for LDZ Exit charges?

We provide views on each of these areas below.

Appropriate aggregation for exit charges

Of the options proposed for consideration in the discussion paper, overall we favour either option 2 (by exit zone) or option 3 (aggregation by network). We discuss the relative merits of these two options further below.

We have concerns that Option 1 (aggregation by offtake point) would subject parties connected to the DN (and their suppliers) to excessive variability in charges. We note that there is no consistent mapping between DN supply points and NTS exit points. Charges at supply points under this approach would therefore be sensitive to DN decisions to reconfigure the NTS exit points from which they offtake gas from the NTS. The resulting reduction in charging stability would constitute a real cost on suppliers. We also consider there to be little benefit to be gained from the increased cost reflectivity offered by this option, given the lack of any stable mapping between DN supply points and NTS exit points.

We note that two additional approaches are also suggested in the paper; namely to scale existing DN charges to include NTS exit charges, and the inclusion of these costs in DN cost analysis (options 4 &5). We recognise that both of these options would have benefits compared to Option 1, given neither would lead to significant cost variability. However, we have concerns that both of these approaches would lack transparency compared to options 2 & 3.

Therefore, as mentioned above, our preference is for either option 2 or 3, and we can see the merits of both approaches.

Option 2 has the advantage of consistency with current industry practice, and potentially greater visibility. In theory, it is also more cost reflective, although we have seen no clear evidence that the marginally sharper cost reflectivity would materially improve efficiency (e.g. through affecting site location decisions made by potential DN connectees).

Option 3 is likely to be more stable, is simpler to administer and retains the principle of the same DN charges being applied across the whole network.

Ultimately, therefore, our decision will rest upon which charge offers greater predictability. Although option 3 is potentially more stable than option 2, it will only be as predictable if DNs provide the same level of transparency and visibility as we currently receive from the NTS. We would also require a separate line for this charge within the quarterly Mod 186 report. If these criteria are met, we would marginally prefer option 3.

Charging basis

We believe it is appropriate for LDZ Exit Capacity charges to be based on the current structure, where charges are based on a flat pence per peak day kWh per day unit rate applied to the Supply Point Capacity (SOQ).

Alignment of dates

On the issue of timing of charges, we support an approach in which all DNs would vary charges no more frequently than annually – which further to recent consultations would apply from 1st April, at the same time as variations in all other LDZ-related charges are levied. Applying all changes from a single date each year will promote transparency in distribution charges, and will be considerably simpler to apply from an operational viewpoint.

We have not seen any evidence that varying charges annually places an onerous financial cost on the DNs. We therefore do not see any need for a specific licence change that would allow DNs to vary charges mid-year. In addition, we would expect DNs to make all efforts to avoid seeking Authority approval for variations in charges mid-year given the costs that more frequent charge variations place on both suppliers and customers.

As NG NTS changes its Exit Capacity charge on 1st October each year, we would expect plenty of notice to be provided of the potential impact on DN charges from the following 1st April – through formal notifications and via the DCMF.

Separate "K" for LDZ exit charges

Finally, we note the proposal that a separate "K" could be specified for the recovery of the cost of the NTS Exit Capacity Charges (removing the need to include adjustments in the overall LDZ adjustment factor). Given that we consider any variations in LDZ exit charges should be implemented simultaneously each year (as opposed to allowing mid-year adjustments for some categories of cost), we do not believe there is any need to develop a separate adjustment factor for LDZ exit charges. However, DNs should publish the individual components of their "K" adjustments, so that we can see with sufficient granularity where they have arisen.

Should you require further information please do not hesitate to contact me.

Yours sincerely

pp **Philip Davies**
Director of Regulatory Affairs