

To: The Pricing Managers
Gas Distribution Companies
enquiries@gasgovernance.com

28 August 2007

Your Ref: DNPC03

Dear Sir/Madam

Distribution Networks Pricing Consultation Paper DNPC03: LDZ System Charges - Capacity/Commodity Split and Interruptible Discounts

energywatch welcomes the opportunity to respond to the issues raised in the consultation. This response is non-confidential and we are happy for it to be published on the relevant website.

We have a number of concerns with the proposed changes, which reiterate reservations which we have expressed on behalf of consumers when this issue was raised previously. These can be categorised as follows:

- *the overall impact on consumers* – moving from a 50:50 split between capacity and commodity to a 95:5 split seems to be based on an analysis of the main cost drivers but is essentially an averaging out of costs, with no account taken of the impact on particular groups of consumers. On average, it is suggested, the impact may be +/- £1 per annum but, in practice, the effect may be quite different. Without more specific information on how classes of domestic consumers in particular are affected, we do not believe that a change is justified;
- *the specific impact on fuel poor consumers* – the consultation mentions fuel poor consumers and suggests that there should be no disproportionate impact on them from these changes. We are sceptical about this assertion. Some fuel poor consumers are disproportionately affected by an increase in the non-fuel (fixed) element of their charges as they seek to ration their spending on the fuel (variable) element to keep overall costs low. Without more specific information about the impact, we can only assert that a number of fuel poor consumers will be adversely affected by these changes;
- *cost reflectivity* – while we accept that all gas DNs have licence obligations to develop charging methodologies which seek to reflect the costs of their businesses, this is not a blanket obligation and should be balanced against their other obligations, including facilitating competition in gas supply. We do not accept that having a larger proportion of charges based on volume creates inherent instability in charges as there are incentives on DNs to reduce volatility and stabilise their charging basis.

Based on our views above, we cannot support the current proposal as it stands. We believe that more detailed and rigorous analysis should be provided before any

Ofgem decision is taken. We understand that the proposal may be subject to an Ofgem impact assessment and would urge the DNs to provide greater detail before then as we regard the impact on consumers to be potentially quite significant.

We hope you find these comments helpful and we would appreciate being kept informed of the progress of the consultation to enable us to comment further.

If you wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs