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18th February 2010

Dear Tim

**Re: Distribution Networks Pricing Consultation Paper DNPC06  
(Proposals for LDZ Charges to Recover NTS Exit Capacity Costs)**

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 charges and their future predictability are a significant consideration.

The predictability of 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 the paper asks for responses to four questions

1. Should LDZ NEC 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?
2. Should LDZ NEC Charges to be applied by Network or by Exit Zone
3. Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ NEC Charges in October or should no change be sought until the industry has some experience of the operation of the new regime?
4. Should the DNs seek to introduce management of a separate K NEC relating to the LDZ NEC charges, for the purposes of setting the level of these charges?

We provide views on each of these areas below

### **1) Charging Basis**

We confirm our response to DNPD04 that LDZ NEC charges be based on the current structure of a flat pence per peak day kWh per day unit rate applied to the supply point capacity (SOQ).

### **2) Application of the charge by Exit Zone or Network**

We favour charging by Exit Zone on the basis of maintaining the current level of cost-reflectivity.

Although we accept that the greatest variations in NTS charges are across Networks, the indicative charges appended to the Consultation paper indicate that there are still significant variations across Exit Zones within certain Networks. Again, while we accept that the locational signals associated with different distribution charges may not be the major factor in new load locations, it is never the less a factor. Charging by Exit Zone will ensure that we retain the current level of cost reflectivity.

Additionally we have concerns over the impact on current customers, in particular large customers who would tend to be on cost pass through terms. A move from a charge by Exit Zone to a charge by Network could result in excess of a 100% increase in NTS exit capacity charges for some customers as they effectively subsidise those customers in higher prices zones.

### **3) Misalignment of NTS and DN dates**

We do not support the approach of DNs seeking to change the LDZ NEC charges in October, but believe that all charges should be varied annually on the 1<sup>st</sup> April. A single date for tariff changes both promotes transparency and is simpler to administer.

It has not been demonstrated that the misalignment of dates for NTS and DN changes will regularly result in material over/under recoveries and consequently we see no requirement for a specific license change to allow DNs to vary charges mid year. In instances where material over/under recovery does occur the DNs have the ability to seek Authority approval for changes mid-year. However, we would expect the DNs to make all efforts to avoid this requirement.

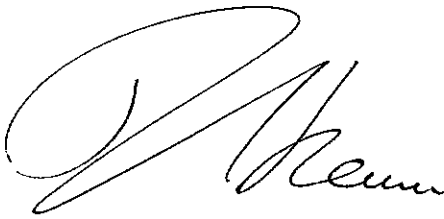
### **4) Separate K for LDZ NEC charges**

We support the introduction of a separate K relating to LDZ NEC charges whereby under/over recoveries of NTS exit capacity charges in a year are taken

into account in setting LDZ NEC charges in the following year. This approach is the most cost reflective, ensuring that LDZ NEC under/over recoveries are recovered from shippers more closely to the same proportion in which they arose.

To ensure transparency of future charges, we would expect details of the K relating to LDZ NEC charges to be separately identified within the Mod 186 reports

Yours Sincerely

A handwritten signature in black ink, appearing to read 'D. Reeve', written in a cursive style.

David Reeve

Head of Transmission and Distribution