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By email: [enquiries@gasgovernance.com](mailto:enquiries@gasgovernance.com)

Dear Tim

## **DNPC05 - Methodology for Determining the Balance of Revenue Recovery between LDZ System Charges and Customer Charges**

British Gas welcomes the opportunity to respond to the above consultation.

We are strong supporters of the GDNs' proposals to update the apportionment of revenue recovery between LDZ Systems and Customer charges, and this has now been overdue for a considerable time.

The proposed revisions represent updates to the existing parameters rather than a change to the methodology itself. In the past, these parameters have been reviewed annually without formal consultation. However, we understand that no update has taken place since 2003, and the grounds for making the change at this time are therefore compelling.

We do not believe that the impacts of these updates are significant enough to delay implementation beyond 1<sup>st</sup> April 2010. Indeed, yet another delay in the process would be unacceptable. The last consultation on this subject was issued in October 2008 - all industry stakeholders must surely by now be very familiar with the issues and direction of change implied by the latest estimates.

We do not believe that it is appropriate to use the average of the last two years (or indeed more years, had they been available). On cost reflectivity grounds believe it is appropriate for the cost analysis for the most recent year to be used in setting the balance of costs – particularly given there is no evidence to suggest that the balance between LDZ System and customer charges is particularly volatile.

Whilst the extent of rebalancing is relatively small, it will nevertheless remove distortions from the system caused by outdated allocation %s. The adjustment therefore improves cost reflectivity, meeting the primary charging objective that "charges ... reflect the costs incurred

by the licensee in its transportation business”.

Our responses to your specific questions are set out below:-

**Question 1. 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?**

We believe that the balance of charges for each DN should be based on a network specific estimate, on the grounds of cost reflectivity.

However, in the unlikely event there are significant concerns over this issue from other stakeholders, this should not be allowed to delay implementation even further – even a weighted average DN split applied nationally would be more cost reflective than the current, out of date, parameters.

**Question 2 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? An alternative would be to use the cost analysis for just the latest year available.**

Firstly, whichever method is used, the grounds for using the current dataset will always be more compelling than reverting to a national % based on 2003 costs.

Putting aside this observation, we do not believe that it is appropriate to use the average of the last two years (or indeed more years, had they been available). In particular, we note that some GDNs have indicated that certain permanent cost movements have occurred between 2007/8 and 2008/9 – so the former year of 2007/8 is already out of date. In this instance, it is therefore important to use the most up to date and relevant number – the final year of 2008/9 – rather than an average of two (or more) years which would be less cost reflective.

**Question 3 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?**

We have been consistent advocates for solutions to charging issues which improve predictability and transparency for suppliers and our customers.

We believe that any annual changes to the rebalancing are likely to be relatively small in nature as we move forward, and with appropriate visibility and advanced notice in DCMF meetings, small frequent changes may be a preferable solution to a larger step change at the next price control. On cost reflectivity grounds, we therefore favour annual changes to the balance of costs, rather than waiting for periodic adjustments.

**Question 4 Is there any reason why the proposal should not be implemented from 1st April 2010?**

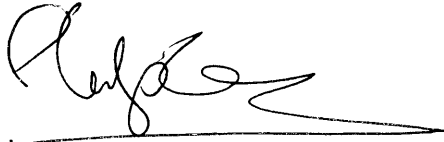
Absolutely not. We cannot understand why, after the very significant delays in getting to this stage and the accompanying extensive industry consultations and protracted discussions, any stakeholder could justify yet another postponement – which would then involve going into 2011 with charge %s based on 2003 data.

We confirm there are no significant process or systems issues which would prevent us from implementing this simple change to parameters.

GDNs have provided evidence that the proposed changes will make their charges more cost reflective, and therefore this rebalancing must take place by April 2010.

Should you require further information please do not hesitate to contact me on the above number.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal line extending to the right from the end of the signature.

Philip Davies

Director of Regulatory Affairs