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Response to Consultation Paper on Behalf of all Large Gas Transporters – Agency Charging Statement

Dear Sirs,

E.ON UK does not believe that the draft Agency Charging Statement (ACS) presented as part of this consultation meets the requirements of the proposed Gas Transporter Licence Standard Special Condition A15.

The requirements of the proposed licence condition state that the ACS should set out:

1. The scope of core services and user pays services
2. The details of the methodology for deriving charges for agency user pays services
3. The charges associated with such services

We do not believe that proposed ACS sufficiently fulfils the first 2 of these requirements and we have grave concerns about the proposed costs for the services.

Scope

The proposed licence condition SSC A15 requires that the ACS sets out the scope of 'Core Services' and 'User Pays' services. We do not believe that the ACS achieves this requirement.

There is no explanation given as to why services are being considered Core or User Pays. This basic justification is needed to assist with future developments of the industry and to ensure that the User Pays concept can succeed.

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Core Services

The definition of services that are Core merely references Section V6.5 of the UNC. It would however be preferable to detail all the services currently provided by the GTs agent under the Agency Services Arrangement (ASA).

A copy of the ASA agreement is currently included on the Joint Office website and it is a requirement of the SSC A15 of the GT licence that this be published. Adding this information to the ACS should not therefore present any confidentiality concerns.

It would aid in the overall level clarity for the industry if this information were included within the ACS. Although information relating to the specific costs of these services would not initially be populated this is something that may develop over time.

Including these services within the ACS and having this document subject to the governance of the UNC (assuming Modification Proposal 188A is accepted) would ensure that the principles of good governance were adhered to and shippers were more involved in the delivery of services that are crucial to them.

The inclusion of more detail about the core services provided by the GTs agent should also allow the Methodology for the agent's costs to be more transparent and meaningful.

User Pays Services

The description of the scope of User Pays services does not clearly explain the differences between Code Services and Non-Code Services and why these need to exist.

There are references in the Introduction and Background section of the ACS but the reasons for these differences should be described in more detail in the relevant section regarding scope.

Code Services

It would appear from information presented by the GTs in the ACS that User Pays Code Services would be similar to the Core Services provided by their agent. The services would deliver against requirements specified within the UNC.

Anecdotally it would appear that the only difference between these services and the proposed Core Services is that the allowance that the GTs have been provided under the next price control excludes the costs of delivering them.

Therefore to encourage the appropriate incentives on the delivery and use of these services they are to be charged on a per use basis. The concept for charging seems appropriate and logical and we would support this.

However it is not clear why these can not be described as a Core Service with a transactional based charging regime within the ACS. Some Core Services are already being charged on a transactional basis (e.g. CSEP Administration Charge) and the differences between these and those selected as User Pays Code services is unclear.

Non-Code Services

These would appear to be services that the GTs are either obliged to provide via some other requirement than the UNC (e.g. their licence, SPAA etc) or believe that their agent could provide to the industry due to its unique position within the market.

A clear definition of User Pays services would allow a greater understanding of the services to be made transparent and clear to market participants and is a requirement of the proposed licence condition SSC A15.

The proposal within the ACS is that shippers and other potential users of these Non-Code services would become a party to a separate commercial agreement with their agent rather than having a direct commercial relationship with GT.

The implication of this requirement and the nature of the suggested commercial contract by xoserve is that all services provided by the GTs agent and described as Non-Code are potentially contestable, discretionary and in theory available from another service provider.

However it is not clear that the services selected as being non-code in the ACS are either discretionary or available from alternative service providers at the moment.

There are several examples of where the logic does not seem to follow in the proposed Non Code Services in the ACS:

- The AQ Speculative Calculator; this is referenced within Section G 1.6.19 of

the UNC as being a tool that is part of the UK Link system and therefore by reference a UNC deliverable. It would therefore seem a more appropriately fit with the descriptions of a Core Service as defined within the proposed ACS.

- The Internet Access to Data (IAD) service is defined within SPAA and currently domestic gas suppliers are obliged via licence to utilise the service. It can therefore not be considered as a discretionary service that suppliers may elect not to use.

The concept of Non-Code Services appears logical but needs far more clarity than is currently described in the ACS. It should be made clear the reasons as to why these services are being offered by the GTs. We would suggest that this could be either as an obligation outside of the UNC (e.g. licence, SPAA etc) or a service to the industry that is possible to provide due to the unique position in the market of the GTs agent.

Governance of the xoserve User Pays Contract

The proposal by the GTs within the ACS is that Non-Code services will be delivered via a commercial contract directly with their agent xoserve.

Xoserve have confirmed that the commercial terms for this contract are non-negotiable and have insisted that services will be terminated for shippers who do not sign to these conditions prior to the 1st April 2008.

This approach to a commercial arrangement that can only be provided by the GTs agent is unacceptable. The commercial approach to User Pays Non-Code Services needs to be resolved before we would be happy to accept the ACS.

Methodology

The methodology included in the ACS is very limited and references another document the Activity Cost Base (ACB) Overview of Methodology. This document is too high level, lacks detail and is full of generalisations that do not allow direct reference to either the Core Services or User Pays Services.

The level of detail provided in the ACS is therefore inappropriate for the type of service being provided by the GTs agent.

The services provided via the ACS are very clear and comparatively not that great

in number (even if it were to be extended to include all of those within the ASA).

The methodology therefore for explaining the costs of these individual services should be at a sufficiently detailed level that parties are clear as to how the prices for the service are derived.

This is already recognised for these services in existing Licence Condition SSC A15 3. ii) which requires that “the services and systems costs associated with each activity..... are separately assessed and reported”. A similar level of detail is required within the ACS before it can be considered acceptable.

Recovered Costs

A number of the services that are proposed in the ACS as being User Pays have been in existence for a number of years. A significant proportion, if not all, of the cost of developing these systems and the hardware platforms on which they reside must have been paid for by the shipping community during previous price control periods via transportation revenue.

It is not clear from the methodology as to how these amounts have been taken into account when deriving the charging levels. In particular the IAD service and the AQ Speculative Calculator were both initially developed in excess of 10 years ago and therefore should include little cost recovery for hardware and software development.

GT Shared Services

The methodology does not also make clear how much of the service costs will be recovered from the GTs and their use of the systems. IAD in particular is used by GT staff and yet there is no clear explanation as to the anticipated recovery for this usage.

Charges

IAD

The costs for the IAD service appear to be unjustifiable and discriminatory against shippers.

Cost Recovery

As part of the consultation processes it has been made clear that the GTs will have £3.3 million reduced from their allowed annual revenue to recognise those services that will now be considered 'User Pays' and that this money will now be considered as excluded income.

The cost that we are currently incurring via transportation charges for the delivery of the IAD service can therefore be assumed to be in the region of £350k per year (based upon an even distribution of costs for IAD within transportation charges to domestic suppliers via their market share). The proposed cost to us of the IAD service within the ACS would be in excess of £1.2 million per year. Considering that the service has not changed and that the level of previous cost recovery by the GTs was adequate this level of increase is unjustifiable.

The IAD service is similar in nature to a service that is provided to the electricity industry via the MRA called ECOES. Based upon current usage levels of IAD we estimate that there is a basic need for approximately 10,000 user accounts of the IAD service. This is approximately half of the number of accounts that exist at the moment.

The proposed charging structure for IAD would provide the GTs agent with an income of in excess of £5 million per annum (some estimates suggest £15 million). This is a factor of 10x greater than the cost of the equivalent ECOES service to the comparable retail electricity supply industry.

This level of cost to the gas industry is impossible to justify. What is also not clear is the logic behind the methodology for IAD service costs.

The IAD service has two principle costs; a set up cost to develop the system and an ongoing maintenance cost to host the service and provide administrative functions (new logins etc).

Arguably the initial cost of developing the system has already been paid for in

transportation costs over the past 10 years. This leaves a potential £5 million per annum cost for hosting the system and carrying out administration. We are unable to justify these costs when compared to similar service providers.

The suggested recovery mechanism for costs associated with the IAD is flawed. The on-going costs for the provision of the IAD service is principally incurred by the amount that the system is used (e.g. this dictates the size and type of server). The proposal is to recover the costs of the service not on the amount a companies employees use the service but instead by the number of IAD accounts that they have. Companies with multiple gas shipping companies have been denied by xoserve from having one IAD account to access all of their customer's records. Instead they are required to have individual IAD accounts for each gas shipping portfolio. This results in staff members having multiple IAD accounts and incurring multiple times the level of cost for the same level of actual system usage. This unfairly discriminates against companies based simply upon their chosen market structure and does not reflect the costs of providing the service.

Throughout the consultation phase xoserve have been unwilling to share the true costs for the provision of the IAD service with the industry. Considering their unique monopoly position within the market for this service this stance is inappropriate and obviously raises suspicions about the true motives for the level of prices that are being proposed. No explanation has been given as to why the true costs for the delivery of this service can not be provided to the industry.

The IAD service prices differ widely between shipper users and customer users. Considering that shipper users arguably are easier to administer than customer users of IAD it is difficult to justify the additional premium. These price differences can therefore be argued are discriminatory against shippers and need to be revised.

We hope that these comments have been useful with regards to the development of the ACS. If you need any further clarification of any points that we have made then please do not hesitate to contact me.

Yours faithfully

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