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NSGP/LET/SP/ys//05

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**Samanta Padalino**  
**Head of Gas Distribution**  
**Office of Gas and Electricity Markets**  
**9 Millbank**  
**London SW1P 3GE**

Dear Ms Padalino

**Response to “Gas Distribution Transportation Charges from 1 October 2005 ”**

In this letter, we have set out our views in response to Ofgem’s letter dated 4 May 2005 “Gas Distribution Charges from 1 October 2005” (“Ofgem Letter”).

Eni UK Limited (“Eni”) understand that National Grid Transco (“NGT”) propose changes to its existing Gas Distribution Networks Charges as from 1 October 2005. These charges are split into two areas:

- (a) Implementation of individual Distribution Network price controls
- (b) Change to the charging methodology discussed in the pricing consultation paper PC80

Firstly, Eni wish to make it clear, that although there was a general preference by Shippers to the suggestion of a later implementation date for the revised charging methodology PC80 (from April 2005 to October 2005), this did not imply that Eni agreed with the proposed changes to the methodology. In fact, Eni set out its opposing views in a response to PC80 on 23 September 2004.

Within the “Ofgem’s views” section of the Ofgem Letter, Ofgem has not provided credible reasons in support of splitting a single price control into eight separate controls. Neither have Ofgem (or anyone else) demonstrated what consumer benefits would arise from the proposed changes, if any. Ofgem merely state the following (without any specific relevance to the Gas market) “variability being present in the electricity distribution charges where regional charges have been a feature of the market since privatisation”. This does not appear to be at all sufficient or even relevant as a justification for further complexity in gas pricing controls. We are still of the view that it would be more realistic and practicable to have one set of charges managed in an organised way rather than initiating different levels of charges across the networks.

Eni believe another area of concern is that under the provisions of their Gas Transporter (“GT”) licences, it appears that the DN owners are under no obligations, but only require the use of “reasonable endeavours” to:

- (a) not make changes to charges more frequently than once a year;
- (b) ensure any such changes only take place on 1 October each year; and
- (c) give authority (Ofgem) notice of a proposal to change their charges at least 150 days before the proposed date of implementation.

This lack of commitment fails to provide safe guards to limit the number of changes to the individual pricing controls, so that no more than one price change could take place each year. Furthermore, no limits appear to have been set to the level of the charges. We are of the view that this area requires set limits to control the process and we feel that the appropriate option would be through obligations being placed within each GT licence.

Eni wish to seek further clarification with regards to the following points:

1. Why should the new Network owners have to incorporate the inherited shortfalls from 2004 into their pricing calculations when they start charging on an individual basis from 1 October 2005? Presumably this, that is an issue for NGT alone to recover these costs.
2. The definitive notice of new distribution charges are expected to be published on 1 August 2005, how can Transco issue indicative prices for 1 October 2005, when they will no longer own four of the Networks at that date. What assumptions are these figures being based on for the new network owners?
3. NGT’s publication of Indicative Distribution Transportation Charges from 1 October 2005 - Distribution Cumulo Rates, states that “approximately half of the increase in rates for the distribution networks is due to the transfer of rates payable in respect of meter assets from the Metering business to the Gas Transporter”. Why is it that these costs are incorporated into transportation charges? Why should Shippers foot the cost of NGT transferring one part of its business assets to another part of its business?
4. We understand informally that many of the changes now proposed for October 2005 will be directly revised (due to over recovery) in future charging period. This see-saw in prices is damaging for both efficiency and consumer confidence, and cannot make sense in a mature gas market such as the UK. Furthermore, Eni would again wish to raise the issue of an obligation on NGT to produce more accurate recovery of revenue forecasts. This is highlighted by the fact that NGT now need to reinstate the NTS TO commodity charge on entry flows from 1 October 2005 to 0.21p/th from a current rate of zero in order to recover an under-recovery of costs from the entry capacity auctions. Eni also request clarity as to whether this under-recovery is also being taken into account via the charges being set out over the two-year period 2004/2006.

In summary, Eni believe that further consultation and more clarity is required covering the area of charges before the proposed implementation on 1 October 2005.

We hope our comments will be given due consideration before the finalised changes to Gas Distribution charges come into force.

Yours sincerely,

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