



*Bringing choice and value
to customers*

Your Ref:
Our Ref:
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14 February 2002

Dear

Re: LICENCE FEES 2001-02

Introduction

In February 2002 we issued a document setting out the principles of licence fee cost recovery for the financial year 2001-02 onwards. Paragraph 2.5 of the document provides for the recovery of exceptional costs which cannot be divided between gas and electricity licence holders under the formulas set out in the 'Principles' document without unreasonably penalising either gas or electricity customers.

The document went on to indicate that we expected to seek recovery of some historic gas costs through this mechanism in the current financial year.

A short informal consultation letter dated 30 January 2002 sought comments by 12 February 2002 on the proposal to seek recovery of £7.5m of historic gas costs only from gas licence fee payers. The costs relate to £4.1m of Ofgem costs and £3.4m of Gas Consumer Council costs unrecovered from previous years due to the cap on the total amount recoverable from the gas industry under the previous licence fee regime.

Responses

We received nine responses to the informal consultation. Seven respondents favoured the proposal and considered it to be the most equitable approach for gas licence fee payers to meet the historic gas costs, while one respondent sought further information.

One respondent argued that Transco should meet all regulatory deferred costs in respect of the gas sector. It was suggested that consumers of the relevant network operator would ultimately bear a larger proportion of the costs of licence fees, in respect of those costs recovered by other network operators. It is our initial view that it is not clear whether consumers on interconnected networks would incur a significantly different proportion of licence fee costs. The impact on consumers will largely depend on the methods adopted by transportation businesses in respect of licence fee cost recovery.

Determination

Having considered all the responses to the informal consultation and having due regard to the comments made we have concluded that the most equitable method of cost recovery is to allocate those costs that could not be recovered from the gas licensees in previous years (£7.5m) only to gas licence fee payers.

Accordingly, invoices will be issued shortly to existing gas licence fee payers in accordance with paragraph 2.7 to 2.11 of the licence fee principles paper.

Yours sincerely,

R A FIELD
DIRECTOR, FINANCE