

## **British Gas Connections Limited**

### **Response: The Regulation of Independent Gas Transporter Charging Draft Proposals**

#### **1. Introduction and summary**

British Gas Connections Limited (BGCL) welcomes the opportunity to respond to Ofgem's draft proposals in relation to the Regulation of Independent Gas Transporters (IGT) charges. Whilst we acknowledge that Ofgem has expended considerable resource, energy and skill in progressing the IGT review, BGCL continues to hold serious concerns and misgivings about the approach taken.

Through this consultation, Ofgem is driving for a major change to an established model that has been instrumental in establishing significant competition in the gas connection and transportation markets. The basis for this change appears to be the premise that consumers' interests are best served through a revised and largely untested model. The basic intention in Ofgem's proposals is to apply relative price controls whereby shippers would be charged no more in total than they would had the consumer's premises been connected to Transco's network, rather than that of an IGT. We believe that Ofgem has thus far failed to properly explain or quantify in detail an argument for such change which it believes will better serve consumer interests. For example, what is the number of consumers affected by this, that is those required to pay Gas Transporters (GT's) supplemental charges, and what was the supplier's justification for applying such charges. We are also concerned at the apparent lack of analysis by Ofgem into the effect on the markets in which IGTs operate of the proposed changes in regulation.

From BGCL's perspective a significant risk lies in Ofgem's draft proposals, which could add considerably to the current regulatory burdens on an IGTs' business. Furthermore the draft proposals may lead to largely unjustified, disproportionate and costly regulatory interference, with a consequently negative effect on enterprise and investment by IGTs and on the markets in which they operate.

In Section 2 of this paper, BGCL's key concerns arising from Ofgem's consultation paper are outlined. Section 3 contains responses to specific points from the draft proposals.

#### **2. BGCL's Key Concerns**

The following comments summarise in general BGCL's views of Ofgem's review and the work it has undertaken to date.

## **2.1 Consumer Interest Issues**

Ofgem has based the need for the IGT review on three consumer interest issues. Firstly it is alleged that there are indications that IGTs are charging excessively, secondly that they are making excessive payments to developers thereby not acting in the best interests of consumers, and thirdly that they have received an undisclosed number of complaints from gas shippers. In its work to date Ofgem has failed, in our view thus far to fully and objectively substantiate these allegations or prove the case for change.

Ofgem has acknowledged on a number of occasions that it considers that it has applied insufficient control of the IGT markets thus far. This perceived inaction underlies the need for its review. BGCL firmly believes the regulatory controls embodied in the current licences are both satisfactory and proportionate, provided these controls and checks are properly and robustly applied. We therefore again question the need for the sweeping, extensive and costly revisions to the licence conditions or obligations as indicated in Ofgem's draft proposals, and the value to the consumer in so doing.

## **2.2 Transco's Transportation Charges to Connected Systems.**

Ofgem's draft proposals state that the consumer's interest is best served by IGTs applying long-term charges relative to Transco's current charges. Ofgem readily acknowledges ( §6.22, 6.23 of the draft proposals) that Transco's charges to gas shippers are averaged and do not fully reflect costs, and that the cost of developing a fully cost reflective system for Transco's charges is prohibitive. Ofgem does not however consider it inappropriate to compare the cost reflective charges of IGTs with Transco's averaged charges. We strongly object to this biased and unfair treatment of IGTs.

BGCL believes that a full review of Transco's charges is essential, especially to analyse the effect to connected system users of Transco's rebalancing of charges over the past 3-4 years. This practice, we believe, is the largest contributing factor to the variance seen today between the overall level of shipper charges on Transco's and IGTs networks. IGTs who had set transportation charges, connections costs and investment decisions based on comparative Transco "all the way" charges five years ago now find that through no fault of their own that the total charges to shippers today may be higher than the comparative Transco charges.

Charges made by most IGTs are borne out of the cost of gas conveyance across their networks and in most cases include a proportion of the connection cost. This approach is a fundamental cornerstone of the current competitive markets in which IGTs operate. Furthermore the arrangements to provide recovery of connection cost via transportation charges were debated at length by Parliament and enacted under the current legislation and licences. Transco transportation charges do not include cost of connection, other than the hidden cost of upstream reinforcement where applicable. For new connections Transco's connection costs are recovered up-front from the person requesting the connection.

The approach proposed by Ofgem in the draft proposals is that IGTs, who are mostly highly cost reflective should align their charges to those applied by Transco. This is highly problematic, not least because such an approach conflicts with the relevant GT licence conditions that require adherence to principles of cost reflectivity. BGCL would therefore propose that the application of any Transco based relative pricing proposal is wholly conditional on the completion of a full and detailed review of Transco's charges and charging structures, in particular those elements related to connected systems. Such a review would need to prove beyond doubt that Transco's charges are fair and fully reflect the actual costs associated with conveying gas to all categories of domestic consumers connected directly or indirectly via connected systems.

BGCL therefore maintains that Ofgem's intention to set IGTs' charges relative to those of Transco's current charges is fundamentally flawed due to the inherent differences between the two charging arrangements. Further it is particularly concerned that such principles already underpin Ofgem's C4C Interim Arrangements imposed by Ofgem since the 7 December 2001 which have served to undermine BGCL's business model and are in our view unfair, unjustifiable and without basis in law.

### **2.3 Potential impact on the effective competition in gas connections**

In its review of Competition in Gas and Electricity Connections August 2002 Ofgem has formerly acknowledged that there is an effective competitive market in the provision of gas connections, principally because of the existence of independent gas transporters. Nonetheless the draft proposals focus mainly on IGTs charges and costs, and fail to consider or quantify in any material way the any potential impacts and risks on gas connection costs, current levels of competition in gas connections and consumer interest issues that may result from the proposals. We therefore urge Ofgem to conduct and make publicly known an impact assessment of the proposed changes to IGT charging regulation.

### **2.4 Financial Ring Fencing Provisions under Section C of the Gas Transporter Licence.**

IGTs comprise only a small part of the gas infrastructure chain. In addition, as new entrants into a previously monopoly business sector, IGTs are still small in size and scope compared to Transco. BGCL therefore contends that IGTs should not be comparable to Transco or any other large-scale, utility distribution company.

Thus BGCL does not support the application of additional provisions on financial ring fencing included under Section C of the current gas transporter licence. These were drafted specifically to constrain the operations of Transco, and hence are not in any way relevant, at this time, to IGTs.

It is arguable that there may be a case to apply such conditions should any particular IGT begin to resemble Transco in relation to its scope of operations and scale of its customer portfolio. However, BGCL would see the imposition of such provisions across IGTs at this stage as a disproportionate increase in the regulatory burden placed on such small businesses.

## **2.5 Existing Controls on excessive IGTs charges**

As stated previously BGCL believes that the controls and checks already available to Ofgem are sufficient to effectively and efficiently regulate IGTs.

A particular issue put forward by Ofgem as the basis for its review is the excessive payment to developers made by IGTs. It contends that such payments result in higher charges and excessive profits. We note that Ofgem's analysis of IGT costs in its draft proposals concludes that the flow of any money from IGT to developers had little correlation between relative charging levels between IGTs. In BGCL's view the application of early and proportionate regulatory action already available to Ofgem could readily prevent the potential for any excessive payments, thereby protecting the relevant interests of shippers and consumers. Indeed we formally alerted Ofgem to the issue of developer payments in October 1998 and have continued to press for regulatory action since then. We believe that a binding industry Code of Practice for IGTs to limit payments to developers for services rendered would be welcomed by market participants, thus ensuring that such practices are properly controlled and limited to the benefit of consumers.

Ofgem's position, and that of consumer interest, was specifically strengthened by the Utilities Act, which provides a clear market control on the potential levels of IGT charges. The Act removed geographic exclusivity from IGTs. The basis for the legislation was simple and should be restated; should any IGT apply excessive conveyance charges over its networks, it risks other competing infrastructure providers constructing parallel gas mains, and the subsequent transfer of customers to the new pipes. Whilst Ofgem argues that this is not likely to occur, the issue warrants further explanation. IGTs, by law, do not have a natural monopoly position on any network they operate and should not therefore be treated from a regulatory perspective in the same manner as former dominant monopoly powers, such as Transco.

Gas shippers do have a right, by licence revocation which allows them to avoid trading on IGTs' networks (should they choose to use it). Gas suppliers have the right to pass through explicit supplemental charges, but have for specific commercial reasons largely chosen not to do so. Both of these controlling factors if applied could serve to ensure that IGTs do not charge excessively e.g. IGTs would not risk the construction of gas networks unless there are shippers prepared to convey gas on that network, and suppliers prepared to operate without supplemental charges.

Ofgem has indicated that only a small minority of gas suppliers, (approximately two out of the more than thirty operating on IGTs' networks),

have chosen to pass through additional charges resulting from a consumer's connection to an IGT network. It should be noted that even in the relatively few cases where any supplemental charges are passed through to consumers, that those consumers can readily exercise their choice of competing suppliers, and in so doing, are largely protected from having to pay additional charges raised by such suppliers. We therefore believe that there are sufficient controls within the legislation and current business practices to ensure that IGTs do not abuse their positions.

### **3.1 POINTS RAISED IN OFGEM'S DRAFT PROPOSALS**

#### **3.1.1 Transco's Charges and Price Comparisons**

Relative prices with reference to Transco, the form of regulation favoured by Ofgem, relies on the premise that Transco's charging methodology, allocation of costs and pricing structure are realistic, and that the market in which Transco operates is a suitable benchmark for IGTs. BGCL believes that prior to imposing a Transco-equivalent charging methodology on IGTs, it will be necessary for Ofgem to be satisfied that the Transco charging structure and the relative scales of charges for different market sectors/ types of customer, are both relevant to the market structures they aim to regulate. This means that the Transco charging methodology must, first and foremost, meet the relevant objectives of the GT licence, that costs have been suitably unbundled, and fairly and justifiably allocated to correct market sectors and that prices give appropriate signals for future investment.

In particular, Ofgem will need to put in place control mechanisms to ensure that Transco will not unreasonably rebalance its costs such that the cost of transporting gas from the beach to CSEPs is increased in greater proportion than for the "Transco all-the-way charge" from beach to meter. IGTs have for a long time argued that the beach to CSEP charges Transco levies are incorrect in that they are based on a charging methodology and approach that is unduly discriminatory and does not properly assess the requirements of CSEPs.

BGCL maintains the view that Transco's LDZ charges and the charging methodology act to prohibit growth in new connections by competing GTs. The LDZ charging methodology is based on highly postalised, averaged costs, which do not adequately meet a key objective of the GT licence – that of cost-reflective charging.

Transco constrains CSEPs to fit in with this methodology which uses a deemed use of system measure, based on size of load as a crude proxy for determining how much of the Transco pipeline system is actually used. This is clearly not appropriate and may be used by Transco, when it rebalance its costs, to provide distorted price signals for new investment. It is major reservations such as these that leads BGCL to dispute the analysis of price comparisons undertaken by Ofgem, as part of this review and presented in the Draft Proposals paper. The conclusions that have been drawn, that IGTs generally charge more than Transco, are based on the premise that the

Transco charges are appropriate and correct. BGCL believes that the Transco charges are not appropriate and correct. Without a thorough review of Transco's LDZ charges and methodology, the price comparison, methodology relative to Transco charges presented in the paper is fundamentally weakened.

Given the small sample size employed to assess IGTs' prices the statistical significance of Ofgem's findings is we believe very low, casting further doubt on the conclusions drawn.

In its proposals Ofgem has made much of the claim that some IGTs currently operate a Transco-equivalent pricing methodology. The assertion appears to be that if some can operate within this restriction, then so should others. BGCL questions the degree to which Ofgem has fully tested the ability of some IGTs to properly operate this way, independently of the benefit of any support or subsidisation from other parts of the group of companies within which they may operate. Only with such an analysis can Ofgem accurately make these claims regarding IGTs.

A major assumption in drawing price comparisons, where pence per day charges have to be converted to pence per kWh prices, is the level of AQs attached to various types of premises. Ofgem has decided to adopt the AQ values described in the Transco NDM CSEP NExA agreement for its assessment of prices. BGCL strongly disagrees with the use of NExA AQs for the purposes of making price comparisons and, potentially, for regulating IGT charges. BGCL has calculated AQs for a significant number of its supply points and concludes that the consumption patterns on its pipeline systems differ significantly from those contained in the NExA table. Given that IGTs will conduct a formal domestic AQ review this year, it would be appropriate for Ofgem to review the results from this exercise with a view to using the output for the establishment of more appropriate AQ tables for use in making price comparisons.

BGCL therefore firmly believes that relative pricing constraints must not be imposed on IGTs until a full and proper review of Transco's charging methodology (especially for the recovery of LDZ costs) is conducted and concluded.

### **3.1.2. Transco-Equivalent Charging and Interest of Consumers**

The level of any relative price control will need to balance the legitimate interests of various parties – GTs, shippers, suppliers, consumers, building developers and other connecting parties. If the imposition of a relative price control were to significantly reduce the number and type of IGTs operating in the market, this could lead to stagnation in new connections, and a corresponding reduced choice for connecting parties. There could be a return to the former situation whereby Transco operated as a monopoly service provider to this market in the provision of some categories of connection e.g. small flatted properties to the detriment of competition and consumer interest.

Ofgem will need to demonstrate that the level of the price control put in place will facilitate sustainability and growth of IGTs in the market place.

BGCL is not convinced that Transco parity or less is a sound basis from which to begin the argument over the level of prices. Other factors, such as whole life value, cost-recovery periods, expected growth and business funding arrangements need to be equalised prior to making proper comparisons.

BGCL understands the arguments put forward by shippers and suppliers for "one price" transportation. However, to date only two suppliers have proceeded to introduce supplemental charges for consumers connected to IGT pipeline systems. This does not constitute overwhelming evidence to support claims that the problems encountered with IGT charges are significant. Although proper regulation of transportation charges is required, there is a real danger that Ofgem could over react and introduce a form and scale of regulation that is disproportionate.

BGCL is concerned that the current Ofgem exercise is only looking at one aspect of an IGT's business in relation to protecting the interest of consumers, namely transportation charges. There are however no mechanisms in place to ensure that any benefits accruing to shippers and suppliers through a reduction in transportation charges will be passed on to consumers. The two suppliers charging supplemental charges may continue to choose to do so for other reasons. The most likely outcome of any price control therefore will be to benefit shippers and suppliers. The case for benefiting consumers through a single focus on transportation charges is, in our view, tenuous.

Safety of construction and operation, and quality of service are also key elements that must contribute to the protection of consumers' interests. In some situations it is right and proper for companies to vary their prices if this results in increased benefits requested by consumers. However, an assessment of relative quality of service among GTs, including that of Transco, has not been undertaken. It might therefore be, as feedback from our customers shows, that some IGTs offer a standard of service well above that being offered by Transco. A broader assessment should form part of the current review in order that Ofgem might gain a more meaningful understanding of GTs relative strengths and weaknesses. It would not benefit the connections market to constrain IGTs' charges to Transco's, if Transco is offering a lower level of service to its customers. The resulting incentive could be for all GTs to gravitate towards this lower level of service in order to reduce costs. Therefore BGCL considers it necessary for Ofgem to fully evaluate other factors that may affect consumer's interests.

If the above example is taken further, the danger of Ofgem's proposal for relative pricing is that innovation and development among IGTs may be severely curtailed due to limited incentives to deliver new ideas, processes or services. In addition, the ability of IGTs to fund any major new investments to support industry initiatives such as SPAA will be severely limited by any constraints placed on its ability to levy appropriate charges. It is unlikely that suppliers will want to fund IGTs up front and it is also doubtful whether they

would countenance higher transportation charges to fund the investment over time. Therefore, the ability of IGTs to meet certain needs of suppliers, and ultimately consumers may in some circumstances be severely curtailed.

Therefore, BGCL has major reservations about the appropriateness and need for Transco-equivalent charging. In particular, we believe it may provide the wrong investment signals and inhibit, if not prohibit, the development of new systems and processes to meet the needs of suppliers and consumers in the ever-evolving gas supply marketplace.

### **3.1.3. Path of Charges**

The path of charges through time will need to take into account :

- the degree to which strict adherence to Transco-related prices is required;
- the cost of and work required for reviews;
- the cost of developing and agreeing suitable systems and processes to manage the required rules;
- the funding arrangements available to IGTs; and
- the need to attract investment in pipeline extensions.

In developing a new pipeline system, BGCL must provide its investors with a robust business case showing how the investment will yield returns over a reasonable timeframe. To date, BGCL has used a 20-year model for recovering costs and a reasonable profit. After the 20 years are up, the capital employed is fully depreciated and the capital-related transportation charges fall to zero. BGCL believes that this is a reasonable model in that it allows investors capital payback over a reasonable timeframe. However, the difficulty with this model is that current charges are being scrutinised and used to make comparisons with Transco. Had Ofgem taken an average expected charge over, say, 40 years, then BGCL's deviance (according to Ofgem) from the Transco-equivalent charge would be very different.

There are clearly conflicting requirements that need to be considered, and different companies will have different views depending on how, and by whom, they are being funded. If too much rigour is introduced then a certain class of investor may be unduly favoured, which would have a major impact on the market place.

Whatever route is chosen, BGCL asks Ofgem to carefully consider the needs of different classes of investor. BGCL's preference is to have a degree of up front assurance that reasonable, stable returns will be received for funds employed for building pipeline systems. It would therefore prefer a process that minimises the disruption to initial charge levels and regulatory intervention. This would have the added benefit of stabilising transportation charges over time, enabling shippers and suppliers to forecast costs with a relatively good degree of accuracy. Thus a healthy degree of stability would be established and competition in gas supply will be better facilitated.



### **3.1.4. Legacy Sites**

The treatment of “legacy sites” will require on-going discussion between Ofgem and IGTs (and other interested parties). The extent to which an IGT will want to re-align its legacy sites with the new arrangements will, of course, depend to a extent on the shape and form of the new arrangements. It would be difficult to envisage an IGT moving from a relatively stable regulatory framework, with certain assurances about revenue streams, to one where there is the prospect of continual change and uncertainty. A likely requirement for IGTs to migrate their legacy sites would therefore be the establishment of a path of charges that is stable over time and not subject to either regular but initially unknown or ad hoc changes to the rules.

The starting point will most likely be a form of ring-fencing of legacy sites. Over time options should be available for IGTs to move to the new arrangements, however in our view such options should not be compulsory.

## **3.2 COMMENTS ON SPECIFIC QUESTIONS RAISED IN CHAPTER 6**

### **Is Transco the most appropriate comparator against which to set a relative price control for IGTs?**

BGCL believes that Transco will, by default, be considered by many to be the most natural comparator for IGT prices. However, BGCL does not believe that Transco’s costs and charges are sufficiently transparent and cost-reflective to lend themselves suitable for comparison with IGTs. Transco is a significantly different type of GT to IGTs both in the nature and scale of its operation. It would not be prudent or justifiable to make comparisons with such a large organisation whose cost base is difficult to understand, and whose transportation charges reflect historical developments purely for the sake of simplicity and convenience of implementation. Additionally, the very fact that Transco is subject to a formal 5-year regulatory price control, which itself causes uncertainties about year on year transportation prices, further diminishes the relevance of using Transco as a benchmark.

The proposal that any comparison is needed is not one that BGCL subscribes to, as this form of regulation will inevitably have a harmful effect on competition in new gas connections.

### **Should IGT charges be compared to Transco’s incremental equivalent charges from CSEP to SSP?**

BGCL disagrees with comparing “Transco’s CSEP to SSP equivalent charges” with those employed by IGTs, because the comparator is not based on any form of cost-reflective charging or economic model. The costs borne by Transco in the new connections market are not transparent to the industry. Transco is not compelled to charge in a cost-reflective manner – the transportation charges for new connections are forced to fall into line with

those for existing connections. It therefore follows that Transco's charges for new connections do not stem from any natural economic, competitive or cost-reflective considerations BGCL therefore disputes the comparison of IGT charges with those of Transco.

We therefore believe that any comparison should be based on Transco's all the way charges given that the variance from these is a key driver in whether gas suppliers and shippers consider it appropriate to establish two tier tariff pricing models.

**Should the application of the relative price control focus on site level charges or property level charges?**

If a relative price control is to be introduced, BGCL would strongly suggest site-level control as the only practical and fair option. This would enable differential prices for different property types and thus allow for a degree of cost-reflective charging. In addition property level comparison of charges would be unduly burdensome, onerous and potentially costly to administer. It should be noted the property Aqs are simply used by IGTs as a proxy for use of system. Given the relative disparity across similar property types due to property size, geography, occupant life style and connected gas equipment this is not and will never be an exact science and therefore to drive down a relative pricing approach to individual property levels is wholly unnecessary.

**Should the level of relative price control be equivalent to Transco or below Transco?**

Although BGCL does not agree with the establishment of a relative price control with Transco, if one is to be imposed, we do not believe that the starting level for transportation charges should be below that established for Transco.

**Should charges track Transco's charges (possibly with fixed floor prices) or follow their own path between reviews?**

A simple approach is required where charges are set and allowed to continue for a period of time. A balance must be struck between regulating prices and attracting investment to the new connections market. Uncertainty in obtaining adequate future revenues to recover investment costs has to be minimised and therefore BGCL favours an approach similar to that used to derive its capacity charges – fix charges for 20 years. A down side to requiring frequent reviews and adjustments of charges will be the considerable cost and effort associated with doing this.

**Should reviews be based on set periods, rolling reviews or phased reviews? What should be the length of time between reviews?**

As advised above, BGCL favours the setting of stable, predictable and transparent charges over a long period of time, preferably 20 years or more.

### **Are performance measures appropriate?**

GT performance should be considered before making any decisions on implementing a price control on IGTs. In particular, IGT performance compared with Transco would illustrate that many IGTs significantly outperform Transco in the level of services it offers to connecting parties and shippers. This would imply that IGTs should in fact be allowed to set charges above the levels established by Transco with incentives placed on Transco to improve its service.

Provisions under the current GT licence, we believe, are sufficient, adequate and proportionate to address poor performance by GTs. We see no case at present for Ofgem to seek further measures to reinforce the current framework.

### **Should Transco's current structure of charges be reviewed and do these charges provide the appropriate price signals to IGTs and consumers? Should the review occur before or after the introduction of price regulation and should adjustments be made to charges levied in the interim?**

A full and thorough review of Transco's LDZ charges and charging methodology is a vital prerequisite to be undertaken and completed prior to applying any form of Transco-equivalent regulation of IGTs.

BGCL insists that, if Transco's charges are to be used as a benchmark for IGTs, then they must be fully reviewed by Ofgem and/or independent economic advisors. Such a review would have to fully and properly address competition in the new connections market leading to greater transparency in the allocation of costs between different market sectors and the establishment of a significantly higher level of cost-reflective pricing. It is widely accepted that Transco's LDZ charges are highly contrived to provide a simple, seemingly "fair" level of cost recovery, especially for the domestic sector. Clearly therefore, Transco's charges are highly inappropriate for making comparisons with competing connection companies and should be changed before any relative-price control is imposed on IGTs. Not to do so would completely undermine the basis of Ofgem's proposals.

The major flaw with Transco's charging structure and the prices it sets lies with the recovery of LDZ costs. The charges are highly postalised, averaged and based on an average cost recovery basis as opposed to a long run marginal cost methodology. As far as growing the gas network is concerned, all of these factors contribute to give the wrong price signals to potential investors and consumers. The result is a highly flawed model that fails to give clear economic signals to aid future investment. In addition, it conspires to act against the encouragement of competition in new connections.

### **Should the relative price control apply to rural infill and non-domestic sites?**

BGCL believes there is no case for making a distinction between domestic and non-domestic sites in the setting of regulated prices. There is a case for separate treatment of rural (or urban) infill sites, as otherwise such projects might never come to fruition as part of a competitive connections market. In BGCL's view the current arrangements for the setting and passing through of "supplemental charges" are an effective model and should be retained in the GT licence. They provide GTs with a basis for investment whilst passing through the proportion of the cost of connection via the shipper and supplier to the person benefiting from that connection.

**Would annualised connection charges be appropriate for non-domestic sites and infill sites?**

As stated above, BGCL is not convinced of the need for such differentials in charges. The removal of C4C "supplemental charges" from the GT licence to be replaced by an untested annualised connection charge model would in our view further increase the risk that infill and mains extension projects will not be progressed. Prior to advocating such a change, we believe it appropriate that Ofgem fully consider the likely mechanics involved in progressing such projects, from enquiry through to billing, and the additional costs and risks that could apply to a GT. We see the concept of IGTs contracting on a long term basis directly with householders, that might be envisaged by annualised charges as potentially unmanageable and unreliable. This is because up to 80% of householders will typically move house in any particular area in a 20 year period.

**What is the most appropriate measure or approach for AQs used in determining transportation charges?**

The derivation of AQs to help make comparisons between GTs' transportation charges must be based on a combination of sound engineering design principles and empirical data. To date, there are no industry figures derived on this basis. BGCL recommends that the results from the 2003 AQ reviews, (conducted by all GTs including Transco), be used to help inform the debate.

GTs have a duty to construct and operate gas networks that are fit for purpose and they are held wholly accountable for these activities. It is therefore right and essential that all GTs design and construct networks efficiently to meet all reasonable actual and predicted gas demands and forecasts. The design of a network is a significant contributing factor to the cost of that network. Transportation charges by GTs are required by licence to be cost reflective, therefore a GTs design AQs must form the basis of its charging methodology.

The AQ values contained in the Transco NDM CSEP NExA contract are wholly inappropriate having been established for a separate purpose. Extensive analysis conducted by BGCL gives rise to major reservations over the scale and profile of AQs contained in the NExA. BGCL believe that to use, or even accept, the NExA values without a careful consideration of their origin is not acceptable as it is not based on a proper analysis.

**Should metering and meter reading charges be unbundled and clearly excluded from transportation charges, especially if Transco is used as a comparator?**

It is wholly appropriate that any avoidable costs/charges are removed from the price comparison. It is particularly appropriate and important that metering and meter reading charges are excluded. Additionally, the artificial Transco CSEP charge should also be excluded.

**Do clear governance arrangements need to be put in place to ensure easy validation of IGT charges, including standardised invoicing by IGTs?**

BGCL believes that Ofgem has a role to play in giving comfort to shippers that charges are based on methodology statements and meet the requirements of any regulatory controls. In addition BGCL's methodologies and transportation statements and charges are highly transparent and available to all relevant shippers.

BGCL conducts regular surveys of its shippers to obtain feedback on key shipper service areas. BGCL's performance in the area of transportation invoicing has been scored as being consistently good and we have not been made aware of any problems with validation. On the other hand, at industry meetings some shippers have expressed difficulties in validating Transco's CSEP invoices and the transportation invoices of some other IGTs.

BGCL therefore believes that issues should be dealt with individually and corrected through appropriate modifications to network codes. New and potentially costly governance arrangements are not therefore required. Furthermore such arrangements would likely drive a standard approach or system, which in itself would constrain innovation and the development of new and efficient models.

**Will incentives for IGTs to focus on low cost sites be outweighed by the overall advantages of relative price regulation?**

BGCL is not persuaded that relative price regulation will bring significant advantages to consumers. The result of such regulation is likely to increase overall costs in managing the regulatory requirements, increase profits to gas shippers/suppliers and the creation of uncontested and potentially monopoly opportunities for Transco in certain sectors of the new connections market. In our view consumers will experience little or no benefit.