energywatch response to-

Review of Transco's Structure of distribution changes

Overall position

Energywatch would prefer the reform of the charging methodology to take place concurrently or after the reform of the exit and interruptible regimes. We believe that any potential change to the existing methodology would have an important impact on the level of discount interruptible customers receive. We also accept that interruptible customers at present do not pay the LDZ capacity charges and that will ultimately have to be reviewed as a result of DN sales. Equally reform of the exit arrangements will have an important impact on the revenue flows between the NTS and DNs (and of course, the new DN owners would probably have an opinion on the development of their transportation methodology).

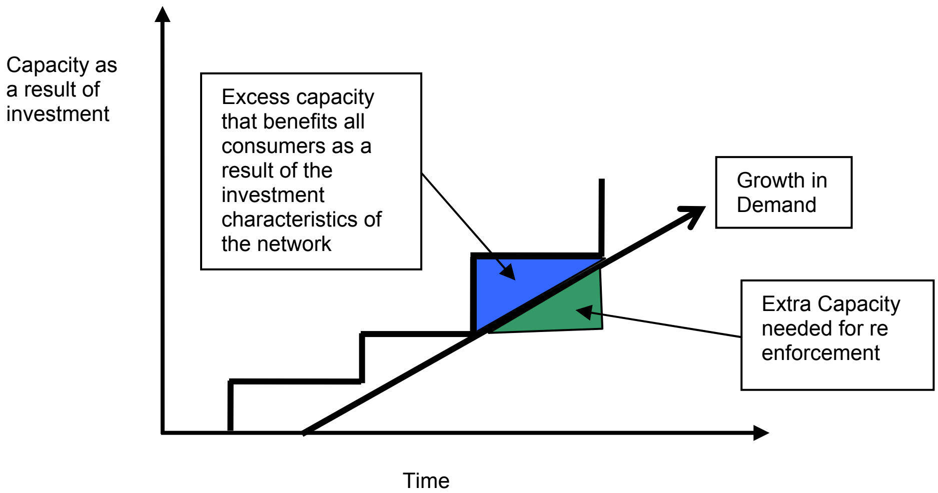
If a change was forced upon the shippers it would make sense to maximise consumer welfare by rebalancing the capacity commodity split to those who are most likely to realise the savings.

Regarding connections policy, we would like Ofgem to adopt a shallow connections policy. We believe that this will encourage extension of the gas network, the benefits of which accrue not just to the consumers who would receive a cross subsidy to some extent but also to the rest of society in the form of reduced emissions. We believe that Ofgem should incorporate externality arguments in their assessment of both extending the gas network and connections policy.

Charging methodology

Energywatch believes that cost reflexivity should be the guiding principle behind developing charging methodologies. However, in some circumstances this cannot always be practically developed and in many cases cost reflexivity simply means developing more accurate averaging categories. Since the methodology is essentially averaging it is important to consider the implication to the review of those clusters of sites that are either under or over priced.

We also note that network investment is characterised by step fixed costs such that investment in re enforcement really matches the exact increase in demand placed on it (Figure 1) but rather outstrips it for a period of time if demand continues to increase. If this is the case the whole network benefits from increased flexibility as a result of the excess capacity (blue box) as a result of the re enforcement (green box) the charges should be developed accordingly.



energywatch would recommend increasing the sample size to further understand changes in demand for both CSEP's and large loads (1% of I&C sites and 13% of domestic supply points 4.21 p24). Though counter intuitive, it is possible that there are some relatively large loads on the lower tiers of the network.

Connection charges

energywatch supports a shallow connections policy. We believe this will facilitate the extension of the gas network which will genuinely be of benefit to consumers. At the same time it will have a positive impact and the environment. For example in Scotland there are 500K households not connected to the network of which there are 214K properties 7km or less away from the network and communities of 50 properties or greater. This means that statistically 128K will be in fuel poverty and 106K vulnerable.

Capacity commodity split

If a change was forced upon the shippers it would make sense to maximise consumer welfare by rebalancing the capacity commodity split to those who are most likely to realise the savings. Therefore it seems logical choose a class that almost certain to benefit the most. These customers are the type who would be most likely to know that they would be entitled to the savings as for example they have separate Transportation bill.