

Posted and E-Mailed

16th December 2004

Ms. Indra Thillainathan

Office of Gas and Electricity Markets (Ofgem)
9 Millbank
London
SW1P 3GE

Dear Ms. Thillainathan,

Re: Calculation of the Connected System Exit Point (CSEP) charge under Relative Price Control (RPC) for iGTs

On behalf of E S Pipelines Ltd ("ESP") I wish to respond to the above proposal regarding the modification of the calculation of CSEP charges.

As previously discussed with Ofgem the current method is producing a significant discrepancy in transportation charges for some of ESP's networks where there is a mixture of sites. Because of that the charges to shippers are not in reality Transco tracking and domestic shippers are subsidising the reduced charges for the I&C sites. This I believe is not in the spirit in which RPC was negotiated and the alternative method is in fact what was expected by many of the iGTs and shippers I have spoken to.

Also I would point out that for some project iGTs would not recover the same amount of revenue where the connection of the different types of properties is not the same. For example if an infill project is led by a large industrial load which connects to the network from the start, the iGT gets its full I&C income stream straightaway. However the domestic premises will only connect onto the network over a relatively long period, therefore using the current Ofgem method where the I&C charges are less the iGT will under recover on the industrial load, which will only be "partially" made up by those domestic premises that connect. This means until all domestic premises are connected the iGT will receive in total less income than the alternative method. The impact will be that when an iGT assesses such a network they will require a higher connection contribution from the domestic residents to make up for the reduced income, this may in some cases cause the network not to be economically viable so denying the domestic customers the chance of a gas supply altogether.

Therefore I would fully support the use of the alternative approach outlined in your letter, and as an iGT ESP does not have a preference between option 2 or 3. I would however comment that I believe it is preferential for shippers and end users to always have charges more reflective of Transco's method, therefore on their behalf I would recommend Option 3. Having said that if other iGTs would require significant cost expenditure to implement the alternative method then at least having the option of the alternative approach would be preferential than not permitting it at all.

Regarding the costs for ESP for the implementation of the alternative approach there would be none as we already have our systems set up for the alternative approach. Therefore in reality the real cost implication for ESP would be if we had to adopt the current Ofgem method. With over 60 networks many of which are mixed networks the work required to firstly change the model and then re-run all projects will take a few weeks, and then our billing model and database will need updating. Although only a small iGT with relatively few networks the work required is still significant as new housing networks by their nature lend themselves to an automated system which can process any charges once made in bulk, however this cannot be easily done with mixed sites.

I would also point out that although you say in your letter the guidelines specify the method illustrated, I believe in reality they are not clear as both ESP and a number of other companies (I am led to believe) assumed the guidelines allowed for the alternative method. Therefore you may find that in reality there may be also expense incurred by other iGTs in converting their systems to allow for the current method used by Ofgem.

If you have any queries please do not hesitate in contacting me on 01372 227561.

Yours sincerely,

Robert Wallace
General Manager