

Gas Distribution Charges from October 2005

3 June 2005

The Association of Electricity Producers welcomes the opportunity to provide comments on Ofgem's open letter on the indicative gas distribution charges published on 4 May.

The Association notes and understands the three drivers for change as detailed by Transco and appreciates that uncertainties remain in the final charges due to the mains replacement incentive position and variations in actual and forecast throughput. We also welcome the provision of information on the breakdown of the overall change by the components. An area we are less clear on is the base change and to what extent this is affected by throughput both forecast and actual and the decision at the time of the separation of the distribution price control to adjust the regulatory asset value (RAV) of each network such that charges would not immediately change.

In respect of the RAV adjustment at the time of the price control separation we note that Scotland and Wales and West were assigned RAVs that were 26% and 33%¹ lower than their RAV based on physical assets. We also note that these networks are showing the smallest base change, +0.1% and -2.1%, whereas London that was assigned a RAV 24% above its asset base is showing a base change of +5.0%. We would welcome a further explanation of this and whether these observations are connected or coincidence. If this is simply coincidence we consider that Transco and the new DN owners should provide more information to demonstrate that this is the case.

With respect to the price changes themselves we consider that the desire for stable and predictable charges for customers should be a prime objective and to increase charges in October 2005 only to reduce them in October 2006 seems at odds with this principle. A more considered approach would be to take a longer term view, to the end of the price control period when setting charges from October 2005. This would be more consistent with the expectations set by Ofgem in the document referenced above, namely;

'Disruption to consumers will be minimised as any regional variations in charges should gradually emerge over a relatively long period of time.'

The phasing in of regional variations in charges should ensure that domestic and I&C consumers do not face step changes in charge levels.

¹ Separation of Transco's distribution price control – Final proposals June 2003