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Dear Samanta

REVIEW OF STRUCTURE OF GAS DISTRIBUTION CHARGES – TRANSCO NTS RESPONSE TO INITIAL PROPOSALS

Transco NTS welcomes the opportunity to respond to the Ofgem consultation on the Structure of Gas Distribution Charges, dated July 2005.

Cost reflectivity of Transco's distribution use of system charges

The issue of cost reflectivity of gas distribution charges has been extensively reviewed during previous Ofgem consultations on the subject, the last of which was carried out in the May 2004 consultation paper "Review of Transco's structure of distribution charges".

Ofgem concluded within the May 2004 consultation paper that the current system of reflecting the costs based on Annual Quantity (AQ) or load size as the cost driver offered an appropriate balance between cost reflective charging and minimising administrative costs. Ofgem consequently did not recommend a move away from the existing approach, which has again been recognised within the July 2005 Structure of gas distribution charges consultation paper.

Transco NTS considers that such an approach is consistent with standard special condition A5 of a Gas Transporter's Licence to reflect the costs incurred by the licensee in its transportation business and agrees that the benefits of moving to distance related charges may not offset costs to the industry at this time.

The capacity/commodity split

Transco NTS recognises that amending the Capacity / Commodity split to reflect the higher cost of the provision of Capacity may better promote the economic and efficient use of the distribution system. However Transco NTS recognises the interaction of such a change with the anticipated reform of the NTS Exit and Interruption regimes. It is therefore considered appropriate to consider changes in the split between capacity and commodity charges either as part of or following the completion of such reforms.

Economic Test

Transco NTS supports the view that the Economic Test and the basic principles behind it be retained. We note, however, that anticipated changes to the NTS Exit and Interruption regimes may require the need for the Economic Test to be reviewed.

CSEP Administration Charge

In respect of the current CSEP administration charge, we support reviewing the costs under the current process on a periodic basis and consider that a cost benefit analysis of switching to an automated process should only be done if it is likely to indicate a clear benefit from doing so.

If you want to discuss any aspect of this letter please contact myself, or Fergus Healy on 01926 655031.

Yours sincerely

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