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Dear Samanta,

Structure of Gas Distribution Charges– Initial Consultation Response

Total Gas & Power Limited welcomes the opportunity to comment on the proposed changes to the Gas Distribution Structure.

Cost-reflectivity of use of system charges

We agree with the consultation's findings that Use of System (UoS) charges strike a pragmatic balance between cost-reflectivity and simplicity. Moving to a locational model will incur substantial additional costs for a minimal increase in cost-reflectivity. We also agree with Ofgem's view that basing UoS on transportation distance will unduly penalise rural areas.

Capacity and Commodity Charging and Interruption Reform

We consider interruption reform to be outside of the scope of this consultation and any reform to capacity/commodity charges must therefore be considered without assuming changes to the Interruption regime.

We fail to understand how Ofgem can come to the view that changes to the capacity/commodity split must depend on interruption reform as it assumes and presupposes changes to the interruption regime that have yet to be finalised. To assume that these changes will occur prior to the conclusion of the consultation of interruption reform is not good governance and so we feel that the capacity/commodity reforms must be considered independently of interruption reform.

Our comments above notwithstanding, we do not agree with the proposed changes to the current regime.

Changing the current weighting will have a minimal impact on NDM customer behaviour, as their capacity is ultimately determined via their AQ. These customers do not vary their performance significantly to minimise fuel costs and are effectively price inelastic. The proposed changes in methodology will therefore result in an increase in their gas transportation charges, as indicated by Ofgem's analysis. This will lead to an increase in gas prices for all NDM customers, especially small Industrial and Commercial consumers, as effective price signals will not be apparent to these customers.

While the change in weighting on the face of it should give incentives to DM customers to modify their operations, we do not believe it will be a large incentive. For the majority of DM customers other outside influences, such as market demand for their products have a greater influence on their operations. We therefore do not



agree that these changes will precipitate a significant change in DM customer behaviour.

Overall as these changes will increase costs for NDM consumers and not change the behaviour of larger users we do not feel that these changes will result in any meaningful benefit. It may be beneficial for Ofgem to host some form of seminar to discuss the proposals, owing to the fundamental nature of the reforms proposed. This would enable the industry and the regulator to fully understand the issues.

Economic Test

The Economic Test is exclusively the domain of Transco and it has been difficult for shippers and new connectees to ascertain Transco's requirements in connecting to the network. Far from increasing the potential for gaming, increasing the transparency of the connections process will enable new connectees to modify their requirements to reduce the amount of system build required, hence increasing efficiency. We therefore support increasing transparency of the Economic Test.

The possibility of dispute of new connections between process and non-process loads is likely to be quite high if it is attempted to draw a distinction between the two types of load, especially if the new connections has a mixture of sites on it. Considering these problems of discrimination (which, as is noted in the consultation, may result in expensive appeals processes) we do not support splitting sites into such categories.

CSEPs

The costs of dealing with CSEPs are currently at a level (£1.20 per supply point according to the consultation document) which does not provide a compelling economic argument to begin automation of the process. Furthermore any move to automate the handling of CSEPs will result in significant costs for current Users and could be construed as a barrier to new entrants who will have to interface with fully automated processes for comparably small numbers of customers.

We note Ofgem's point that the growth of iGTs will necessitate this migration at some point, but we believe that requirement will not materialise for the foreseeable future, if indeed it ever will do.

Should you wish to discuss our response further, please feel free to contact me.

Yours sincerely,

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