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**Re: Structure of gas distribution charges**

Dear Samanta

Please find our comments below on specific aspects of Ofgem's initial views on the structure of gas distribution charges.

**Capacity and Commodity Split**

Whilst we generally support cost reflectivity in the market, we are unable to accept the proposed changes to the capacity / commodity split.

Increasing the weighting of the capacity component of use of system charges would most likely lead to the reintroduction of standing charges for gas customers. We are very concerned that this would be a step backwards as standing charges would almost certainly lead to an increase in costs to consumers as suppliers factor the risk of higher transportation costs for low users into their tariff and contract prices.

The re-introduction of standing charges would also seem to contradict the government's target of eradicating fuel poverty by 2016 as, in Alistair Buchanan's words in a recent Ofgem press release, "Improving household energy efficiency is the most sustainable way of tackling fuel poverty" (R/36, '10 Million Households Receive Help to be More Energy Efficient' September 2005).

Transferring the costs from unit rates to fixed charges will also have an unwanted affect of diluting incentives to reduce consumption. Whilst we appreciate that gas transportation charges only represent part of the customer's bill, this is a sizeable cost as alluded to in the consultation paper (24% of an average household gas bill).

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Having said the above, in the event that the capacity / commodity split is revised, we would support delaying any changes until at least 2007, to give Suppliers as much time as possible to redesign their bills and relay this to customers in a clear and transparent manner. Not only would this be time consuming but also very costly. Indeed the immense time and cost created by such a change warrants a delay further out than 2007.

We do not, however, support linking any change to DN interruption reform. Whether the current mechanisms in place over state the true value of interruption remains arguable and considerable work is yet to be undertaken in that area. Reform of the DN interruption regime must be processed independently of any other changes to ensure it is assessed appropriately in its own right and is not unduly delayed or fast-tracked to coincide with other industry changes.

### **Customer Charge**

We would prefer to maintain the status quo whereby domestic customers are charged on a commodity basis and larger loads via a capacity charge.

Whilst we have some sympathy with the argument that moving to a total capacity basis would help distribution businesses, through giving them more stable revenue, this would increase the costs for domestic customers, and would unduly affect low consumers and the fuel poor.

### **CSEP administration charge**

We do not support Ofgem's suggestion that the current CSEP charge is cost reflective.

The processes regarding energy allocations that have been implemented by Transco since 1996 for IGT networks have failed to deliver a system that shippers have any faith in is robust, accurate and appropriately allocates costs accurately between shippers.

The complexity of the CSEP management process that the administration fee supports is unnecessarily complex and costly. Instead of suggesting how the current costs should be recovered, the process could easily be re-engineered to remove the cost completely.

It has been argued that the overly complex processes and contractual relationships, which exist between distribution network GTs and IGTs to support these were introduced at the outset of competition to stifle and restrict the development of the IGT market.

We suggest a variation on Ofgem's Option 2, which would be to either remove the allowed revenue for GTs to manage CSEP services completely or to considerably reduce amount that they are allowed to charge. This would incentivise them to improve the processes involved and remove this unnecessary cost for consumers.

In the current set up, the distribution network GTs are effectively profiting from customers who are not connected to their network and are therefore not properly incentivised to improve the situation.

Without reform of the CSEP administration charge, customers on IGT networks will continue to suffer from higher gas supply prices than their neighbours connected to the local distribution network.

### **Economic Test**

We support the continuation of the ET and consider that it would be a pragmatic way forward to update the Test with new assumptions to reflect current market conditions and increase transparency of the process. We think it unlikely that the suggested additional information on the ET would lead to gaming by potential new connectees, however, a form of monitoring could potentially be introduced as a check.

In response to the specific issue raised in the consultation, with respect to the ET, as to whether it would be possible to make a robust distinction between process and non-process loads under the ET, we expect it would be difficult although a defined list of criteria could be used to determine the generic profile of a process and non-process load. These profiles could then be matched to SIC codes which are often allocated to customers. This would, however, be potentially a difficult and costly exercise to administer and it is doubtful that the perceived benefits outweigh the costs.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

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