

Chris Watts  
Head of Gas Distribution Costs and Outputs  
Ofgem  
9 Millbank  
London  
SW1P 3GE



18<sup>th</sup> December 2007

Dear Chris

**Re: Open letter on Ofgem's proposals to implement revised standards of performance arrangements for gas transporters**

Thank you for the opportunity to respond to your open letter dated 23<sup>rd</sup> November 2007. I am responding on behalf of ES Pipelines, ESP Pipelines, ESP Networks and ESP Connections ('ESP'). In general, ESP is supportive of the proposed changes and believes that the approach taken (i.e. making minor changes to a regime with which we are already familiar) will be beneficial to customers and licence holders alike.

One particular area on which I would like to comment in more detail is the new drafting in Clause 12 (Payments). This has been amended to contemplate payments to directly connected customers where disruption to supply was caused by another (upstream) transporter. ESP fully supports the principal behind this: by drafting relatively broadly, it is sensible to allow for future alternatives to the current the provision of emergency cover. However, I have concerns that the current structure of the market is to some extent overlooked by the proposed drafting. In particular, it would seem that the relationship between transporter and shipper could usefully be captured for the purposes of making payments to customers.

As currently drafted, the payments process following an interruption on an upstream network is, from an iGT perspective, as follows: the upstream transporter would report to ESP which properties had been interrupted, and what payment, if any, is due to the customer. ESP would raise payments and distribute to customers either by cheque or BACS to a **supplier's** account, or by credit to the **customer's** account for (meter or connection) charges. However, neither of these arrangements would work particularly well. Whilst ESP may have a record of the customer's supplier, and although they may be the same company as the supplier, we have no direct commercial relationship with them. New billing details would need to be set up on both sets of payment systems. The second option to credit the customer's (connection or meter charges) account is not practical for ESP since connection charges are one-off payments and generally not paid for by customers, and meter charges are levied to the shipper, not the customer.

For the reasons above, ESP believes that the drafting should more explicitly take into account the direct relationship that the gas transporter enjoys with the shipper. We would suggest that recognition could be made of this, and that payments to the shipper are permissible and would be considered a full discharge of this obligation, with the assumption that the shipper will pass

the payment on to the supplier, either for further transmission to the customer, or adjustment of their bill.

Additionally, Whilst the drafting does not preclude the following arrangements, I would like to take this opportunity to clarify ESP's understanding of how the compensation payments process should work in practice, which may help to inform any required changes to drafting: the upstream transporter will notify ESP in the usual way of an incident on the upstream network, according to determined timescales. ESP will collate all information for the supply points affected by the incident, and pass this up to the upstream transporter within the determined timescales. The upstream transporter will make the necessary payments either directly to the affected customers or to the shipper for onward transmission to the supplier and to the customer. This is the most efficient way for the market to discharge these obligations. I would like to stress that it is crucial to ESP that we do not become a non-funded agent for paying monies to customers after an incident on an upstream network, and would like either some assurance that the above process will be acceptable, or some reflection of this arrangement in the drafting itself.

If you have any queries in relation to this response, please do not hesitate in contacting me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'DSpeake', written in a cursive style.

David Speake

Regulatory Compliance Analyst

**ES Pipelines Ltd.**