

Jenny Boothe
Industry Codes and Licensing
Ofgem
9 Milbank
London
SW1P 3GE

9th October 2009

Sent by e-mail to; industrycodes@ofgem.gov.uk

Dear Jenny,

Re: Ofgem consultation on Charging Methodologies Governance Options

Please find attached a non confidential response on behalf of Centrica plc, (excluding Centrica Storage Ltd) in relation to the above consultation dated 26th August 2009.

1. Transmission and distribution charging methodologies that are used to derive network charges are of interest to all market participants and have a critical impact on the costs, incentives and information that users have at all levels of the market. As such industry participants and customers all have a strong interest in the methodologies being fair and equitable, operating efficiently and effectively. Our experience of dealing with the networks is that they are structurally focused on their own business requirements and not those of their customers so it is not surprising that they are resisting proposals that afford users more rights of influence. The volatility passed through in charges to suppliers and the previous lack of action from the networks in proactively trying to assist users in having more visibility and predictability over future network charges all provides evidence of this

Centrica fully supports Ofgem's proposals to allow users views greater rights of influence over charging methodologies.

2. We are supportive of Ofgem's proposals for change windows and agree that this will help mitigate any potential volatility that could arise from the ability of a wider range of industry parties to initiate change. Our preference would be for an annual change window as this would ensure an appropriate time for the development and implementation of proposals, and this also does most to minimize against potential volatility.

3. We do not agree that minimum thresholds should be introduced that would prevent the progression of proposals that did not first receive a certain level of support. Whilst well intended, this could result in sound proposals from users with unique portfolio characteristics blocked by others who would be commercially disadvantaged if such proposals were progressed.

4. We agree with Ofgem's assessment of the relative advantages and disadvantages of options 2, 3 and 4. However we note that it has not been acknowledged that in any of these options additional licence provisions must be placed upon network owners to ensure they provide the appropriate facilitating actions to enable those suggestions made by network users to progress. It will not be possible for users to develop finished proposals without, for example, provision by network owners of data and insight about their networks that only network owners have.

5. We believe Option 3 is preferable to option 2 because it will enable a more co-coordinated process for developing charging methodologies. Though we acknowledge that option 2 has merit and may be easier to implement, Option 3 would also be consistent with development of a common electricity distribution charging methodology. We believe that the costs associated with Option 3 have been overstated. It is possible that some parties who do not support reform may have over estimated

costs. It is difficult to see how an organization can justify multiple FTEs dedicated to handling charging methodologies when for many organizations this makes up the bulk of their whole industry codes team and indeed probably exceeds the level of resources that the regulator might commit to such tasks.

6. Whilst understanding Ofgem's recommendation that Transmission be prioritized, we would stress that we are keen to see reform across the full spectrum of charging methodologies as soon as possible. Gas Distribution costs represent £2.8billion, 15% of a consumer's bill. We are concerned that without a clear timetable for those aspects other than Transmission, given network aversion to the proposals, reform would stall. So if Ofgem is to prioritize it would be helpful if a clear timeframe for each area of network charging to be reformed.

7. We strongly believe that reform should also include embedded, Offshore and independent transportation networks within its scope.

8. Independent Gas transportation networks especially, lack transparency with ambiguity over what charges are and are not covered by charging methodologies. We believe that if this review is not to consider IGTs then there is merit in a wholesale review of IGT regulation, this is necessary to arrest the present trend towards unilaterally imposed increases in charges for "ancillary services" provided by IGTs

For completeness we have attached as an appendix answers to your specific questions. If you require any further information or would like to discuss our response in more detail please do not hesitate to contact me on the above number.

Yours sincerely

Steve Briggs
Senior Regulation Manager
British Gas

Question1: Do you agree with the output from the assumptions made within the quantitative analysis undertaken?

We believe that the costs of each of the options are over stated. It is especially difficult to understand how the level of additional resource required by the network owners can be justified.

Question2: Are there any factors that you believe should have been considered in this analysis?

We believe that all relevant factors have been considered in the analysis

CHAPTER: Four Question1: Which governance Option do you consider is the most appropriate for charging methodologies?

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Question2: Do you agree that we should initially focus on gas and electricity transmission charges, with gas distribution potentially to follow as a second phase?

Yes, but clear timescales must be set out at the same time as the Transmission changes are proposed for both phases

Question3: Do you agree that annual/biannual change and implementation windows are the most appropriate mitigation measures to progress going forward for all the options?

We are supportive of an annual change implementation because this will deliver the maximum level of protection against volatility, and allow more time for development and implementation of proposals. (see above)

We do not support a requirement to gain a prescribed level of support before a modification can progress. This could result in sound proposals from users with unique portfolio characteristics blocked by others who would be commercially disadvantaged if such proposals were progressed. As a natural function of improving cost reflectivity so users will gain and some will lose. Winners will support such proposals and losers contest. Therefore creating the ability for losers to suppress a proposal simply because they outnumber winners would undermine the ability of the governance arrangements to enable reform or deliver improvements in cost reflectivity.

Question4: Do you consider a 3 or 4 month window to be sufficient time to consider modification proposals? Please indicate your preference for either 3 or 4 months.

We would support a 3 as opposed to 4 month window but predicated by the assumption that the additional month saved resulted in an additional month between final decision and implementation

Question5: Do you agree with our approach to defining "affected parties" who would be entitled to raise modification proposals?

We are broadly supportive of the proposed approach

