

Legal & Regulatory

1st Floor, Lakeside West
30 The Causeway
Staines
Middlesex
TW18 3BY

Hannah Nixon
Senior Partner
Ofgem
9 Millbank
LONDON
SW1P 3GE

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Dear Hannah,

RIIO-GD1 Gas Transporter Licence consultation

1. Thank you for the opportunity to respond to Ofgem's latest consultation on RIIO:GD1. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.
2. There are 2 main areas we wish to highlight:
 - a. NTS Exit Allowances: we believe the allowances for NTS Exit Capacity to be overstated by over £50m p.a. and suggest that these need to be restated to a more appropriate level.
 - b. Handling of under/over recovery term: the decision to allow under/over recovery of 2012/3 revenue to be recovered in 2013/4 is contrary to that advised to the industry and that contained within previous Licence Drafting consultations.

NTS Exit Allowances

3. Our analysis shows that NTS Exit Allowances have been overstated by around £56m p.a. (2009/10 prices). This is calculated by comparing to the costs that GDNs will be actually incurring, which can now be accurately calculated by using the Indicative Prices published by National Grid Gas Transmission¹ (and could previously have been estimated by using published prices based on RIIO:T1 Initial Proposals²). The size of the overstatement is, overall, above 1.5% of base revenues and as high as 4% for some networks.
4. In practice this means that the GDN charges to recover NTS Exit Capacity costs would be increasing by around 20% when the actual costs are decreasing. The NTS exit allowance should be considered as a pass-through cost and therefore separate from wider allowed

¹ <http://www.nationalgrid.com/uk/Gas/Charges/consultations/Current+Discussion+Papers/>

² <http://www.nationalgrid.com/NR/rdonlyres/E83BF04C-7844-4D2D-BAEE-DAB2254AFA0D/56941/GCD10DraftdiscussiondocumentApril2013oneoffchangev10.pdf>

revenue arguments. Consumers should not face increasing costs when that charged to the GDNs, for the same service, is falling.

5. We suggest that Ofgem recalculates the NTS Exit allowances on the basis of the published NTS prices, effective from April 2013, and give the GDNs the appropriate allowance in time to update their final prices, before 1st February 2013.

Under/Over Recoveries

6. In October 2012, Ofgem attended the gas DCMF/DNCMF and discussed the volatility decision and lagging process with the attendees³. From this meeting we understood that any under or over recoveries within the current gas year (2012/13) would be lagged by two years to decrease the level of volatility in the T&D charges consistent with Ofgem's decision on Charging Volatility⁴. We are disappointed that this decision has been reversed which, in effect, has created exactly the sort of unexpected and unpredictable short-notice change that the Charging Volatility decision was designed to manage.
7. It would be preferable for Ofgem to keep with the policy decision communicated and understood at the October 2012 DCMF, so the step change between price controls becomes more manageable.
8. We hope you find our comments useful and we would be happy to discuss further, if helpful.

Yours sincerely,

Andy Manning
Head of Network Regulation, T&D Settlements and Forecasting
British Gas
[Via email]

³ <http://www.gasgovernance.co.uk/sites/default/files/Minutes%20DCMF%20231012%20v1.0.pdf>

⁴ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>