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Ofgem

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Independent Gas Transporters' Relative Price Control – Consultation on revising the guidance document and potential changes to Special Condition 1 of the IGT licence

Thank you for the opportunity to respond to this consultation.

Question 6 Are there any other drafting issues that you feel may need addressing by amending Special Condition 1 of the IGT licence?

We believe there may be a case for reviewing revising RPC arrangements. However, we also believe there may be a potentially more significant issue to be addressed than that raised within this consultation, and, indeed that the issues are bound to interact.

Although we have been unable to definitely ascertain from the publicly available information, we believe it is likely, or at least possible, that the method of calculation for the 'wSSP' uplift is overstating the increase required for iGT charges to remain in line with GDN charges. As the peak-day usage of customers (SOQ) has generally been reducing over recent years, GDN pricing has had to increase to reflect this. However, this, in itself, does not mean that the charges faced by an average residential user will have increased in line with the GDN prices. This is because GDNs charge on the basis of SOQ and so the price increase due to reduced peak-day usage is offset by the reduction in SOQ itself.

iGT charging does not make use of peak-day usage and so charges will not reduce as peak-day usage reduces. Hence, in order to ensure charges for iGT-connected customers remain in line with GDN charges the uplift needs to be calculated on the basis of changes to GDN *charges* for SSP users and not on GDN *prices*. Otherwise, customers connected to iGT will incur the increase in prices caused by reducing peak-day usage, but not receive the corresponding decrease. Our initial analysis indicates the 'wSSP' uplift may be based upon on an average user with a *fixed* peak-day usage and so, in effect, would reflect the change in prices rather than charges.

As a first step, we would ask Ofgem to publish the detailed calculations of how the 'wSSP' uplifts have been derived. We suggest starting with the 'wSSP' uplifts published last November for implementation from the 1st January 2013. This will be a positive move in any case, improving transparency and allowing for industry scrutiny, but will also allow us to decide if this is a genuine issue. We recognise that the potential impact of this issue will be mitigated by the ceiling on price increases contained with the RPC arrangements.

If you would like to discuss this response in more detail please contact me.

Andy Manning,

Head of Network Regulation, Forecasting & Settlements – British Gas (via email)