



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

Response from E.ON

General Comments

We support the proposal by Ofgem to review the Relative Price Control (RPC) mechanism applied to IGT transportation charging arrangements.

However we do not believe that the proposals go far enough with regard to reform. They do not seem to be focused sufficiently on delivering true benefits for consumers and understanding the impacts that RPC charging has upon them. Instead they seem to be aimed at delivering administrative cost savings for IGT.

RPC charging is complex for shippers to validate and requires specific resources and staff. RPC is designed to mirror the charging of the local Gas Distribution Network (GDN) but, as highlighted in the consultation, often deviates which creates additional risks for suppliers trying to set tariffs for customers on IGT networks.

Both these issues create unnecessary costs for gas customers from the design of the IGT network charging arrangements.

It would be better to review RPC with the aim of illuminating and minimising these costs as far as possible. This can be achieved by removing risks from suppliers in predicting what IGT network charges will be and removing the uncertainty and risks for cost recovery from IGT which may deter them from investing in future networks.

We would like to see RPC charging reformed so that charges are set for customers on an IGT network that exactly match those of the surrounding GDN. This would remove discrepancies for customers who may be incurring different costs from their neighbours in the next street. It would remove the risks that gas suppliers face in providing a service to customers on an IGT network.

This proposal would also mitigate the need for gas shippers to have teams of staff attempting to understand and validate the complex RPC invoices from multiple IGT.

Shippers should only receive one distribution transportation invoice per MPRN. This should be levied by the gas transporter with the final connection to the customer. This would mirror the arrangements that are in place for electricity Independent Distribution Networks Operators (IDNO).



This would remove the excessive administrative complexity that every gas shipping company currently incurs having to receive, process and validate invoices for a single gas customer from multiple gas distribution companies.

Having the IGT undertake this function is more efficient, as it is carried out by only one party, it reduces the likelihood for error and significantly reduces the need for validation activity by gas shippers. This cost saving would ultimately be passed through to customers and would improve the working of the competitive gas supply market.

It is these objectives of simplification, removal of administrative costs and reduction of risk for shippers, suppliers and IGT that should be the key drivers of this review by Ofgem.

Responses to Consultation Questions:

Question 1: Do you agree that it is no longer necessary for us to carry out our current monitoring role of IGT charges under the RPC?

No, RPC charging arrangements and invoices are complex for gas shippers to administer and validate.

We employ a specialist team of 2 staff whose sole role is to validate the network invoices we receive from IGT. There are over 100 registered shippers on Ofgem's web site. Even assuming that only half of these shippers are active in the supply of customers on IGT networks it implies a significant cost to the gas industry.

It must therefore be more economical for the industry and for consumers who ultimately bear the costs for one party to undertake this role.

We would therefore argue that Ofgem should be taking a more active role in this area to provide reassurance to gas shippers, suppliers and consumers rather than proposing to step away completely.

Question 2: Does this change to the guidance make this issue clear?

Yes, although it demonstrates the complexity of the RPC charging methodology, highlights the administrative burden for shippers and the consequential costs for consumers that this ultimately introduces.

Question 3: Does the revised guidance provide sufficient clarity or do we need to amend the licence?

Yes



Question 4: Should we proceed with licence changes (and a full statutory consultation) to address this issue?

Yes, we would also recommend a review of the application of the rule that allows sites to be charged on the basis of 'the date the licensee is contractually bound to provide a connection to the person requiring the connection'.

We are still regularly encountering new connection sites, where a customer is moving into the new property, which are being set up by the IGT as being under legacy charging arrangements on the basis of this rule. How this can see apply over 10 years since the implementation of RPC charging is difficult to understand. It highlights the challenges for shippers in validating and managing the risks of IGT charging and suggests that this rule is being manipulated inappropriately.

We would suggest that this option is removed and that 'the date of meter installation for that property' is the sole criterion that is applied.

Question 5: Is our intention on this issue clear. If not, what steps should be taken to make this clearer?

Yes, although again we believe it highlights the challenges that gas shippers experience in administering IGT transportation charges.

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

Yes, we believe that a more fundamental review of the IGT RPC arrangements is required as highlighted in our summary section of our response.