

Jacob Kane
Smarter Grids and Governance
Ofgem
9 Millbank
London
SW1P 3GE

30 July 2013

Dear Jacob,

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

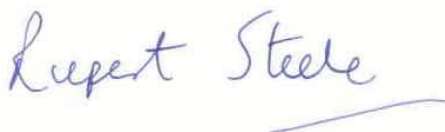
Thank you for the opportunity to comment on the issues raised in the above consultation. Our detailed responses to the specific questions are set out in the annex to this letter.

On the issue of whether Ofgem should continue its monitoring IGT charges under RPC, we believe this will be necessary for now. This is because there are still circumstances where shippers will not have all the necessary information to validate IGT charges themselves. Ofgem could transfer this responsibility if an appropriate gas performance assurance framework (PAF) is implemented. This is an initiative we are presently developing with the industry and Ofgem's Smarter Markets team.

Otherwise, we are broadly in agreement with your proposals. It would be useful to clarify for infill developments whether the intention is for the 20 year period to run for the infill as a whole, or by individual premises. It is feasible for premises to be connected to the gas main for the first time 25 years or more after the infill is built as a result of a change of heating system, subdivision, or construction of a new building. It is unclear whether Ofgem intends the infill surcharge to continue without limit in such cases.

If you have any questions regarding any aspect of this response please don't hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation

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

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 RPC?

While we have sympathy for Ofgem's wish to cease routine monitoring of the RPC, we do not think that shippers currently have sufficient information to undertake the task. For this reason, we think that Ofgem should continue monitoring the condition for now.

Paragraph 2(6) of Standard Condition 1 and the RPC Guidance document paragraphs 2.9 and 2.10, set out or describe the terms for iGTs determining the Date of Entry of a site into RPC. The Date of Entry is determined by the iGT who may choose either the Date of Contract or the Date of Connection. The iGT may choose the Date of Entry on a site by site basis and has 60 days from the date that the licence is contractually bound to provide a connection and to select which option it wishes to use.

The Annual Quantity of each iGT connection is determined based on house type and geographical location. The applicable AQ value which should be applied is set out within the CSEP NEXA Table in force at the time of entry of a site to RPC.

Within the data items set out within the RPC Invoice Template, a field is included entitled "Date of Entry to RPC". The information which is contained within this template is used by Shippers in order to assist them in validating, at an individual site level, iGT Gas Transportation charges. The approval by Ofgem of iGT Modification iGT043W extended the provision of information currently provided to Shippers. While the additional information enhances the ability for Shippers to validate the calculation of transportation charges, Shippers have limited ability to verify whether the iGT has applied the correct Date of Entry to RPC.

A Shipper will not be aware from the specific information provided within the template, what option was chosen and applied by the iGT in relation to RPC Date of Entry i.e. Date of Contract or Date of Connection. As the Date of Entry can vary on a site by site basis, Shippers will have no means of validating whether the information populated by the iGT is accurate or not.

In the case of new connections, if the Date of Entry chosen is the Date of Connection, this may align or be relatively close to alignment with the Meter Fit Date. In circumstances where the Date of Contract Agreement is chosen as the Date of Entry, Shippers are unable to apply any validation assumptions. Some individual housing developments are contracted in phases and can be under development for a considerable period of time or in some cases a number of years. In this scenario, it is impossible to assume any correlation between the Date of Entry to RPC with the Meter Fit Date. The Meter Fit Report is a separate communication sent by the iGT to a specific shipper/supplier. The associated Supplier is deemed to have a contract agreement with the customer at the point of connection.

In circumstances where the iGT site is acquired by the Shipper via the Change of Supplier process, the Shipper will have no knowledge of the meter fit date and therefore any validation of the RPC Date of Entry is not possible.

Ofgem's current role is not limited to monitoring this one particular aspect of RPC and they are also involved in monitoring iGTs overall application and adherence to the charging obligations.

With the proposed implementation of a Performance Assurance Framework (PAF) in gas there is the possibility that the monitoring of iGT RPC Charges can be assigned and undertaken under this regime. It is intended that the Gas PAF model will be introduced at the time of Project Nexus go live which is scheduled for Oct 15.

Taking into consideration the above, we believe that there remains a role for Ofgem to play in verifying iGT application of RPC and in providing assurance to the Industry that iGTs are applying RPC principles in line rules set out within Standard Condition 1. However, there may be the possibility that this monitoring and assurance activity could be transferred under an appropriate gas performance assurance framework (PAF).

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

Infill surcharge for new sites

We concur with Ofgem's view re the interpretation of paragraph 5 of Special Condition 1 of iGT licence relating to the application of the infill surcharge for new sites. We believe that the proposed amendment the RPC Guidance Document provides the necessary clarity on the annual adjustment of this surcharge.

Should it be the case that an iGT has interpreted the licence condition differently, they should be required to make the appropriate retrospective amendments to the information held within their portfolio.

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

Commencement date for the application of the infill charge

Our interpretation of the licence condition is that the 20 year period starts on the date that the gas first enters the pipe connecting the premises and that this period is not re-started when the site transfers to another Supplier. We believe that the revised RPC Guidance Document provides the necessary clarity.

Should it be the case that an iGT has interpreted the guidance incorrectly, they should be required to make the appropriate retrospective amendments to the information held within their portfolio.

It would be useful to clarify for infill developments whether the intention is for the 20 year period to run for the infill as a whole, or by individual premises. It is feasible for premises to be connected to

the gas main for the first time 25 years or more after the infill is built as a result of a change of heating system, subdivision, or construction of a new building. It is unclear whether Ofgem intends the infill surcharge to continue without limit in such cases.

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

The primary objective in the introduction of RPC was that iGT Transportation Charges should, as far as possible, align with that of the GDN. Within the consultation document, Ofgem has outlined scenarios where RPC charging may fall above or below the 5% floor and ceiling. We agree that any decoupling of iGT charges from the GDN's charge creates uncertainty for both the iGT and the customer.

In the interests of maintaining predictability and in an effort to reduce future volatility of RPC charging, we believe that a change is necessary to the iGT Licence Special Condition 1. We therefore agree that Ofgem should proceed with a full statutory consultation to address this issue.

In order to ensure that iGT and GDN charges remain aligned, we suggest the removal of the 5% floor and ceiling and the introduction of the requirement for iGT RPC charging to directly track GDN transportation charges. This change would maintain certainty of revenue for iGT. In addition this would ensure that customers located within the same geographical and gas distribution area are not subject to gas transportation cost variances.

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

We believe that Ofgem's intention on the issue of quarter four entry to RPC is clear both in the licence and Guidance Document.

ScottishPower
July 2013