



Shippers, Transco and other interested parties

Bringing choice and value
to customers

Our Ref: GDT/TRA/MS/2 PC80
Direct Dial: 020 7901 7008
Email: Andrew.Walker@ofgem.gov.uk

9 September 2004

Dear Colleague,

Transco pricing consultation PC 80

Transco raised pricing consultation PC 80 *Introduction of Different Levels of LDZ Charges between Networks* in May 2004 and published its final report on 4 August 2004.

Ofgem has carefully considered the views of the respondents to this pricing consultation and has decided not to veto this proposal because it better facilitates the relevant objectives of Transco's charging methodology, as set out in amended standard condition 4A of Transco's Gas Transporter (GT) licence. Specifically, PC 80 properly takes account of development in the transportation business.

As a result of not vetoing this proposal, the distribution charging methodology will allow for different levels of Local Distribution Zone (LDZ) charges between different distribution networks (DNs) with effect from 1 October 2005.

PC 80 takes account of development in the transportation business by introducing a framework for changing charges across distribution networks that is consistent with implementation of special licence condition 28 B (part 1b) of Transco's GT licence, as amended with effect from 1 April 2004.

As indicated in the notice made pursuant to section 23 of the Gas Act relating to the modification to special licence condition 28B, the effect of the licence modification was to separate Transco's existing LDZ transportation activity revenue restriction price control into eight separate price controls for each of Transco's DNs. As part of these modifications, amendments to licence conditions 1, 4 and 4A were also introduced to allow for separate DN transportation charges corresponding to the separate DN price controls¹.

¹ Ofgem's final proposals for the separation of Transco's distribution price control are outlined in its June 2003 document *Separation of Transco's distribution price control. Final Proposals*.

In making its decision, Ofgem has carefully considered the concerns expressed by a number of respondents about the effects of PC 80 on the frequency of changes to charges and the operation of quantum pre-payment meters.

As regards the frequency of changes to charges, respondents maintained that

- ◆ these proposals could increase the likelihood of changes to charges; and
- ◆ changes to charges could be timed in an uncoordinated manner by Transco and independent DN operators.

Ofgem is addressing these issues as part of the development of a framework for the governance of changes to charges in the event that Transco sells one or more of its DNs.

With respect to quantum pre-payment meters, some respondents stated that these meters would be unable to cope with regional variation in charges. In assessing PC 80 in relation to this concern, Ofgem has considered that:

- ◆ it is important to allow Transco to set charges consistent with its separate distribution price controls;
- ◆ as part of the separation of the price control, regional variations in charges will be phased-in, thus limiting the impact of these proposals on suppliers;
- ◆ suppliers are responsible for ensuring that their meters provide for a reasonable degree of flexibility in the setting of tariffs;
- ◆ there already exists some regional variation through NTS exit charges and large sites having LDZ charges dependent on their peak load size, albeit most suppliers seem not to reflect these variations in setting their tariffs; and
- ◆ in its final proposals, Transco has agreed to delay the implementation date from 1 April 2005 to 1 October 2005 in order to allow more time for industry participants to adapt their systems to Transco's proposed change in its distribution charging methodology.

If you have any further questions regarding this letter, please do not hesitate to contact Samanta Padalino on 020 7901 7033.

Yours sincerely,



Andrew Walker
Director, Transmission Networks Regulation