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Your Ref: 31/03

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Dear David

RATES ON GAS METERS – INITIAL CONSULTATION RESPONSE

National Grid Transco welcomes the opportunity to respond to Ofgem's initial consultation "Rates on Gas Meters". We look forward to a quick resolution of this issue to help level the playing field in the gas metering market and remove the inconsistency of Transco being the only meter operator required to pay rates on meters as a consequence of them being connected to its network.

We agree that this inconsistency places Transco at a competitive disadvantage to other meter operators and distorts the gas metering market. If allowed to continue, this distortion is likely to encourage inefficient market entry, leading to poor investment decisions by other meter operators and higher metering costs over the longer-term. This would not be in the interests of consumers, and runs counter to the benefits of introducing a competitive metering market.

Whilst it would be possible to remove this inconsistency by levying rates on all meter operators, we support the view shared by the ODPM and Ofgem that the most appropriate solution is for the relevant gas transporter, currently Transco, to pay rates for all meters connected to its network, regardless of ownership, and pass these costs onto customers via transportation charges.

Charging Issues

The transfer of meter rates will require an increase in transportation charges and a corresponding reduction in meter tariffs such that Transco's overall revenues would not be altered. This simple re-apportionment of Transco's revenue would incur low transaction costs and be administratively simple for the industry.

We believe that a speedy resolution to this issue is required and agree that Ofgem should not wait for a formal change in the rating regime under the 2003 Local Government Act to effect the necessary changes. Given the uncertainty of when legislation would be introduced, it would be inappropriate to continue with an unacceptable market distortion until that time, especially when there is an opportunity to remove the distortion sooner.

We agree with Ofgem that it would be appropriate to implement this change part way through the year, ideally tying in with the beginning of the gas year (1 October 2003). We also support Ofgem's view that there is no case for retrospective adjustment due to the undue complexity and administrative burden of reconciling historic charges. In our view these changes should be applied on a forward-looking basis.

Meter Tariffs

We agree with the general principle that the reduction in meter tariffs should not be to the benefit of some customers and the detriment of others. The reduction in domestic tariffs should therefore be the same for both credit and prepayment meters and generally offset by the corresponding increase in transportation charges. In the same way, the fall in I&C meter tariffs should correspond broadly with the associated increase in transportation charges to these customers.

Individual customers may experience an increase in transportation charges which is more or less than the reduction in metering charges due to differences in consumption patterns and to the number and type of meters attached to individual supply points. However, Transco's aggregate transportation and meter revenue would be unchanged.

We believe that a relatively straightforward and transparent approach to apportion the changes between customer groups is appropriate. In respect of the specific charge levels, we are committed to working closely with Ofgem to determine how the reduction in metering tariffs should be apportioned.

Amendment to Special Condition 28B

We note Ofgem's view that it would not be necessary to adjust Special Condition 28B of Transco's GT Licence to allow rates presently apportioned to meters to be recovered through the transportation price control.

Legislation

We recognise that the application of legislation in Scotland is separate to that in England and Wales. It will therefore be necessary to monitor developments in Scotland to ensure any Licence changes deemed necessary are consistent with Scottish legislation.

Timetable

We believe that this matter should be resolved as quickly as possible. In theory, assuming Ofgem publish their statutory consultation on 1 August 2003 and no major objections are received, licence changes could be implemented and meter tariffs reduced early as 1 September 2003. However, we recognise that 1 October 2003 would probably be a more realistic target, which would also coincide with the 1 October 2003 price change for transportation charges.

If you require any further information or wish to discuss this response please contact either myself on 02476 423943 or Peter Bingham on 0121 623 2152.

Yours sincerely

By e-mail

Tim Tutton
UK Director of Regulation