

EIUG would like to comment on a number of the issues raised in Ofgem's May 2004 Consultation Paper: 'Review of Transco's Structure of Distribution Charges'.

EIUG has consistently argued over many years that there should be a move away from the current 50:50 split in capacity/commodity charges for gas distribution, which we believe is arbitrary and far from cost reflective. In our view, the current split results in a cross-subsidy favouring lower load factor users at the expense of high load factor and/or interruptible users. We would therefore support the adoption of a much higher capacity weighting (e.g. 99:1) that better reflects the fact that the gas distribution business is dominated by fixed costs, in contrast to the situation in transmission where compression costs are a major factor. If necessary, the transition to a new capacity commodity split could be phased in over time, if the prospect of a step change in the level of charges to lower load factor users was considered to be a problem. We see no reason why a common split in capacity/commodity charges should not continue to apply in all eight gas Distribution Networks.

EIUG suspects that current customer charges for large sites may result in an additional cross-subsidy favouring smaller users at the expense of larger ones. We believe Transco should be required to demonstrate that the current charges are cost reflective, or to alter them if not.

We look forward to these issues being satisfactorily addressed as a result of Ofgem's review.