

Joint Office of Gas Transporters  
First Floor South  
31 Homer Road  
Solihull  
West Midlands  
B91 3LT

Name Laura Doherty  
Phone 01905 340 306  
Fax 01905 340 487  
E-Mail [laura.doherty@rwenpower.com](mailto:laura.doherty@rwenpower.com)

21<sup>st</sup> February 2008

## Agency Charging Statement – Consultation on behalf of all Large Gas Transporters

Dear Mr Davis,

RWE npower welcomes the opportunity to respond to the consultation issued on 31<sup>st</sup> January 2008 regarding the Agency Charging Statement (ACS), and does so on behalf of all its licensed gas businesses.

We have been asked to consider whether we believe that the draft Agency Charging Statement meets the requirements of the proposed Gas Transporter Licence Standard Special Condition (SSC) A15, sections 7 and 11.

Section 7 of SSC A15 states that by April 1<sup>st</sup> 2008, licensees are obliged to have set out the scope of core services and user pays services, set out the methodology for deriving charges for user pays services and set out the actual charges. Section 7 also outlines the requirement to consult and report to Ofgem.

The statement attempts to scope out core services and user pays services. We are concerned however, that the scope is effectively open-ended by the inclusion of 'ad-hoc' services in Appendix 1, item 7. This suggests that the scope will be subject to ongoing and continual change and can not be clearly and definitively demonstrated at any particular point in time. Such ambiguity creates the potential for this 'ad-hoc' item to mean any and all future change to both core and user pays services, which is of concern bearing in mind that no system development costs or change budget have been included in xoserve's funding for the next price control period and as such any changes to core services after April 2008 would have to be funded by users in some way.

We have previously expressed our fear that transporters and xoserve will use the introduction of user pays to argue that every variation to core services should be funded outside of regulated income. We believe that this has the potential to lead to inefficiency and over recovery of revenue whilst at the same time potentially stifling future development of the gas market. The inclusion of this undefined 'ad-hoc' item does nothing to allay these concerns, and if anything reinforces it.

Formatted: French (France)

[RWE npower](#)  
Trigonos  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

Registered office:  
RWE Npower plc  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB  
Registered in England  
and Wales no. 3892782

In Section 7 of SSC A15 there is also a requirement to set out the methodology for deriving charges for user pays services. The methodology, which has been provided, is at such a high-level that the information therein is wholly insufficient for any real analysis of how the charges for the six user pays service lines have been derived. The Activity Cost Basis (ACB) methodology may meet the requirements of SSC A15 (3) ii but it is our opinion that it is inadequate for the purpose of this condition. We would expect, for example, to see a breakdown of how many mandays it takes to provide each of the User Pays services and an indication of the labour rates that have been assumed. This level of clarity would greatly assist the industry in understanding the methodology, and thereby understanding whether the costs for a particular service are cost-reflective, (which is discussed later in this response).

Without a more thorough description of the methodology applied and as stated in our earlier response to Ofgem on Mod 188, we have no confidence that the revenues and costs for services which were previously subject to regulatory control and are now beyond the scope of the Authority, will be accounted for properly.

It is disappointing that there appears to be a general reluctance by xoserve to share any further information on the methodology by which the charges have been derived. Other service providers, for example, the ECOES service provider, are happy to provide much more detailed breakdowns of the elements, which make up any quotations they provide to the industry when requested.

Section 11 sets out the requirement for charges to be cost-reflective. Based on the information contained within the ACS and the ACB methodology we are unable to say whether the proposed charges are cost-reflective or not. As stated above, the information provided is inadequate for such a purpose. Belatedly, and somewhat grudgingly, xoserve have, via Ofgem, now provided shippers with the usage assumptions on which their proposed IAD charge is based. Whilst it is not clear to us why xoserve have assumed shippers will willingly make such drastic reductions in their licence numbers it is at least now clearer what the supposed cost of providing this service is. Whether this is cost reflective we are not in a position to say, nor will we be able to determine the extent to which xoserve's assumptions about shipper licence numbers will lead to an over or under recover of revenue against the cost of provision. At the proposed charge of £480 p.a. it is possible that this single service line could recoup approximately £15m. This is disproportionate with the £3.3m xoserve suggest they will recover on behalf of the gas transporters, via all user pays services. Nor can we tell whether it is value for money, although we note it is incongruent with a comparable service in the electricity market, ECOES. This service costs £356k p.a. across the industry, approximately £8 per account at current volumes. A detailed breakdown of the elements making up this charge has also been produced by the service provider at the request of the industry body responsible for ECOES. Without a more public awareness of how much it actually costs to operate the service the figures are somewhat irrelevant.

It is also difficult to determine whether the charges are cost-reflective given that there was an unofficial suggestion of £1k per IAD account in the weeks prior to the publication of the charges, almost twice as much as the charge eventually published without any explanation of why it had changed in the interim.

Finally, we are unable to understand why the cost for Shipper Agreed Reads is so diverse depending on the methodology used. Does it seem reasonable that fax usage costs around three times as much as email transactions? Use of the U01 flow, which xoserve have been trying to force the industry to use for sometime, is the least cost option, however £0.11 per read also appears to be costly for an automated service.

Section 11 also states that charges should be non-discriminatory. We are concerned that enforced use of the Spec Calc during the AQ Review process could be considered to be discriminatory practice. It is our understanding that an appeal to an AQ will be disallowed unless the proposed AQ exactly matches

Formatted: French (France)

RWE npower

Trigonos  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

Registered office:  
RWE Npower plc  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB  
Registered in England  
and Wales no. 3892782

that calculated by the Spec Calc process. Thus shippers are effectively forced to use and pay for a process controlled by xoserve. Whilst the cost is low per transaction, shippers who might choose to build their own version of the Spec Calc will be discriminated against, as their AQ calculations may not be accepted as valid.

It is extremely disappointing that information regarding the costs and terms and conditions has only made public in these latter stages of the industry discussions on user pays. It is also disappointing that requests for additional clarity on the methodology by which charges are derived have been refused. Whilst we appreciate the driver for improved efficiency, which led Ofgem to introduce this funding arrangement, it would have been preferable for the detail to have been discussed in a more inclusive manner.

Whilst the scope of this consultation does not extend to the Terms and Conditions accompanying the user pays contract, we would like to take this opportunity to point out that we believe that these are unreasonable and unfair. Our comments are provided under separate cover. We are happy to share these across the industry and look forward to a response.

In conclusion, with the scant information available to date, we cannot agree that the ACS meets the requirements set out in the licence.

Yours sincerely,

Laura Doherty  
Industry Codes & Agreements

Sent by e-mail and therefore not signed

Formatted: French (France)

[RWE npower](#)

Trigonos  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

Registered office:  
RWE Npower plc  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

Registered in England  
and Wales no. 3892782