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7th January 2011

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Re: UNC Modification Proposals 0292 (“Proposed change to the AQ Review Amendment Tolerance for SSP sites”)

Dear Bob,

Thank you for the opportunity to comment upon this Modification Proposal. Wales & West Utilities Ltd (WWU) are **not** supportive of the implementation of this Modification Proposal.

We have set out below our comments and views on the Modification Proposal and our reasons for not being in support of its implementation. We have set our views using the headings from the revised Modification template.

Why change?

The proposal sets out the rationale for the existing 20% adjustment tolerance but raises concerns that the Distribution Network charging methodology change (DNPC03), back in 2007, causes the 20% to be inappropriate. The proposal also raises the issue that Annual Quantities (AQs) have reduced on average by around 5% per annum and this adds further weight to the case for changing the 20% tolerance limit.

We are unconvinced that either of these issues lead to more Meter Points requiring to utilise the AQ amendment process. The AQ Review process uses optimal reads, which have been submitted by Users to the Transporters, for calculation of AQs. If AQs are reducing on an annual basis then this will be reflected in the AQ Review process if sufficient valid meter readings are submitted.

The change introduced in 2008 to the charging split between Capacity and Commodity was made to improve the cost reflectivity of Transportation Charges. There are linkages between AQ and SOQ and these are both used to determine Commodity and Capacity

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

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charges, it is unclear how this change results in an increase in costs to Users (due to the restrictions upon allowed revenue).

The proposal also acknowledges that the existing UNC regime requires Users to place equal importance on processing amendments that will increase or decrease the AQ. The proposal is only focussed on 'overstated' AQ values and does not seem to follow this principle.

Solution

The main proposed solution for this Modification Proposal is to reduce the AQ amendment tolerance level to 5% (down from 20%). Due to the predicted number of potential AQ amendments (several million) other proposed changes have been included in the proposal. The most significant is a new xoserve process to manage system capacity allocation for User submissions.

Legal Text

Draft suggested legal text has not yet been provided for this Modification Proposal. However, we believe the Proposal is clear and therefore it has not been required during the consultation period.

Impacts and Costs

xoserve have produced a Rough Order of Magnitude (ROM) for this proposal and this includes cost estimates for both the required changes for the tolerance / validation process as well as the automation of capacity management.

Some Users have expressed concern that there will be consequential system changes required to their systems and, in some cases, these changes will not be made prior to the AQ amendment window in 2011.

We are not aware of any direct impacts or costs on Transporter systems (this excludes the central systems operated by xoserve).

Implementation

The possible implementation timescales for this proposal have been the subject of a good deal of industry debate. As mentioned above, some Users have expressed concern that they would not be able to make any system changes prior to an Ofgem decision and even then it would take upwards of 6 months to deliver the changes. The concern expressed is

that some Users may be able to implement in 2011 and would therefore have an unfair advantage as they would be able to submit proportionally more AQ amendments.

xoserve have continued to work behind the scenes on this proposal to retain the opportunity of a 2011 implementation should the industry require it. An early decision from Ofgem on this proposal would therefore be appreciated by the Transporters/xoserve in order to manage the change process effectively.

We would also request that the Modification Panel (or Uniform Network Code Committee) consider this implementation issue at the meeting on 20th January 2011. We hope that Users' consultation responses will enable a decision to be made at the meeting on whether, subject to a direction from Ofgem, to target either a 2011 or a 2012 implementation date.

Although we are not supportive of implementation, if we are directed to implement this Modification Proposal we believe that it should be made in 2012 in order to offer a level playing field to all Users and not just those that are able to make the necessary system changes in time. From experience we appreciate that any system changes require a high degree of planning and testing and, when dealing with integrated systems that could materially impact on other organisations, these should not be casually expedited.

The Case for Change

The benefits of this proposal are based on furtherance of the relevant objective A11.1(d) and in particular the securing of effective competition between Shippers. We do not agree that implementation of this proposal will achieve this.

By reducing the materiality threshold from 20% to 5% it is likely to result in all Shippers being compelled to process amendments so as not to be disadvantaged. This is likely to result in a classic case of 'money-go-round' with the only benefits being realised by those Shippers that can participate prior to all Shippers being able to. Once all Shippers are carrying out these additional processes, for no benefit, they will continue to operate this way for future years (to retain the status quo).

By creating this additional workload for all Shippers (and xoserve) it could be argued that, if there is no ongoing benefit, that the additional costs that implementation would place on the industry will have the opposite impact and is a detriment to competition.

We are fully supportive of the Proposers intent to have accurate AQs held within central systems but believe that efforts should be placed elsewhere to achieve this. Each year a high percentage of AQs fail to be 'reviewed' (i.e. they remain the same) for various reasons (lack of reads, incorrect asset details etc.). We believe that industry efforts would be better placed dealing with these issues as they are likely to have a greater impact on the accuracy of AQs and the subsequent benefit of greater cost allocation.



Recommendation

Based on the information provided within the Draft Modification Report, and our comments made above, we are not supportive of this Modification Proposal being made.

Hopefully these comments are helpful to the Modification Panel and to the Authority; please do not hesitate to contact me should you have any questions relating to this matter.

Yours sincerely

{By email}

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