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Dear Julian,

Representation for Modification Proposal 0090: “Revised DN Interruption Arrangements”

Wales & West Utilities (WWU) gives qualified support to the implementation of Modification Proposal 0090. This proposal has been developed by National Grid UKD, with the support of the other Distribution Network Operators (DNO), and has been subject to extensive scrutiny through a UNC Work Group.

Our comments are as follows:

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

(a) the efficient and economic operation of the pipe-line system to which this licence relates;

WWU does not believe that this relevant objective will be impacted. Whilst the way in which Supply Points could become Interruptible and the terms of Interruption may change, the operation of the pipe-line system would be unaffected.

(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;

WWU does not believe that this relevant objective will be impacted. In fact by implementing this Proposal through the UNC, consistent arrangements will apply in each DN, and inappropriate and unnecessary fragmentation would be avoided.

WWU echoes the concern expressed in the Workstream that simultaneous implementation of the NTS Exit regime (Modification Proposal 0116 “Reform of the NTS Offtake Arrangements”) and this Proposal will increase risks for the industry as a whole.

(c) **so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;**

Implementation of this Proposal is consistent with the efficient discharge of the licensee's obligations with respect to reviewing the way in which DN Capacity is booked and paid for. WWU agrees that implementation would enable DNs to determine the quantity of Interruption required to meet the 1-in-20 licence obligation and Users to indicate their preferred terms of Interruption. This will allow DNOs to make informed decisions about investment in their networks. Hence implementation would facilitate the discharge of licence obligations with respect to the economic and efficient development of DN systems.

(d) **so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:**

(i) **between relevant shippers;**

Implementation of the proposal will facilitate the securing of effective competition between Shippers by allowing Shippers to bid for the Interruptible rights for their Supply Points.

(ii) **between relevant suppliers;**

The comments detailed above in respect to competition between relevant Shippers apply equally to suppliers.

(iii) **between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;**

Implementation may reveal information about different approaches to managing Interruption by each DNO and therefore providing increased comparative regulation.

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

WWU agrees with the Proposer that this Proposal, if implemented, will not adversely impact security of supply, operation of the Total System, or industry fragmentation. By implementing the Proposal through the UNC, common arrangements would be provided in each DN, avoiding inappropriate and unnecessary industry fragmentation.

WWU recognises that should implementation lead to a reduction in Interruptible quantities available at Stage 1, there would be more rapid progress to Stages 2 and 3 of a Network Gas Supply Emergency. However reduced levels of contracted Interruptible quantities may, through the investment planning process, be offset by capital investment in the DN which would improve security of supply and reduce the likelihood of an emergency developing.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

WWU does not believe that this Proposal would adversely affect the operation of the System.

b) development and capital cost and operating cost implications:

No estimates were available to the Work Group with respect to either the initial cost of implementation or the continuing operating costs. Some increases were expected as the arrangements would be more complex than existing arrangements, increasing administration costs with more choice and discretion open to Shippers and DNs. However, simplification of some of the existing processes may provide offsetting savings. An estimation of these costs will be provided to Ofgem in response to the current Ofgem Reform of Interruption Consultation.

WWU believe that implementation of this Proposal will be expected to facilitate the efficient and transparent trade-off of capital and operating costs, providing information regarding the economic and efficient level of costs. However it should be recognised that implementation could lead to increased levels of investment if this the most efficient solution.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Any additional costs would be recovered through application of the Transporters charging methodology. It was accepted that any change to the level of costs recovered should be managed through the established price control processes. It was also recognised that additional cost recovery mechanism may be developed in light of the incentive schemes being developed outside, but associated with, the Proposal. The impact of the incentive regime cannot be assessed as no decision has been made on the framework or level of exposure for the DNs.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Changes to DN charging methodologies will be needed to support implementation, and new mechanisms may need to be introduced to recover incentive costs.

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

WWU believe that, implementation of the Proposal may reduce the contractual risk, to which the DNs would be exposed, by allowing the DNs to determine the volume of Interruptible rights they require and to make appropriate decisions for obtaining the required DN capacity. The NTS Transporter should not be affected by this Proposal.

However WWU is concerned that implementation of this Proposal in isolation, whilst other major industry changes are currently being developed in parallel,

through UNC Modification Proposals, Ofgem consultations and Transporter consultations, exposes the DN to significant risk. These risks include pricing uncertainty, incentive exposure and unknown outcome of Gas Distribution Price Control (both one year and five year).

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

WWU recognises that changes will be required to the UK Link System if this Proposal were to be implemented. The Systems most likely to be impacted are the Sites and Meters database for recording sites with Interruptible status, SC2004 for the exercise of interruptible contracts and Invoicing 95 for payment in respect of Interruptible rights. Xoserve will be submitting information about the proposed changes to Ofgem for the Impact Assessment. A new system may also be required for selecting those Supply Points that are required for Interruption and this might be dependent on each DN's selection (pricing) methodology.

Computer systems of Users will also be affected by implementation. However as this is dependent on the precise nature of the regime that is implemented no quantification of the impact is available.

The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

WWU does not believe that Users would incur additional costs or risks under the Uniform Network Code as a result of implementing the Proposal. In addition implementation may provide an opportunity for Users to develop innovative and flexible contracts.

The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

It is WWUs preferred position that a tender option is adopted. This will allow consumers to reveal, and benefit from, the true value of being Interruptible.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

WWU is currently assessing the amendments required to our Safety Case. This represents both a time constraint and a risk. The ability to demonstrate compliance with 1-in-20 planning requirements and emergency arrangements will be necessary. Any changes will to be submitted to, and approved by, the Health & Safety Executive prior to implementation.

In addition, implementation will require establishment of new contractual arrangements between DNs and Users and consequently in the contracts between Users and their customers.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

- DN Interruption Reform will proceed in a timely fashion

- DNs will be able to determine the volume of Interruption they require
- Users will have flexibility in the Interruption allowance they require
- DNs will be provided with the appropriate market signals regarding investment in their networks
- All Users will be treated equitably

Disadvantages:

- Implementation timescales means that there will be fundamental reform of NTS Exit and DN Interruption at the same time, and it is not clear how these two reforms will interact and operate in the future
- Ofgem intends to publish its Impact Assessment (Ref 191/06) prior to making any decision on implementation of Mod0090. However this information will not be available to market participants prior to the completion of the UNC consultation process.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been established.

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Whilst implementation of this Proposal is not required to reflect any current change in the methodology, such changes would form part of the total regime.

Programme for works required as a consequence of implementing the Modification Proposal

Further work is required to identify the detailed changes to processes and systems for both DNs and Users.

Proposed implementation timetable (including timetable for any necessary information systems changes)

WWU recognises the importance of all linked consultation periods being aligned in order to allow considered responses and consideration of the proposed changes 'in the round'. The implementation timetable will need to take this and potential system changes into account.

Yours faithfully

Liz Spierling
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Wales & West Utilities