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Dear Julian

Representation for Modification Proposals 0115/115A: “Correct Apportionment of NDM Error”

Thank you for the opportunity to comment on the above UNC Modification Proposals.

Over the last few months we have attended the Distribution Workstream and participated in discussions on this topic and have now reviewed both UNC Modifications Proposals. We are in full agreement with the sentiment of the modifications in that the current arrangements under the Reconciliation by Difference (RbD) process are inequitable as there is an apparent over-allocation to the Small Supply Point (SSP) market.

The two main areas of debate have been:

- 1) Does either modification present a fairer and more equitable ‘smear’ proportion, and rate, compared to the current RbD regime? and,
- 2) Are the arguments for excluding Daily Metered (DM) (115 & 115A) and Monthly Read meters (115A) from the allocation process justified?

Modification Proposal 115 seeks to smear all RbD energy across all Non Daily Metered (NDM) supply points, as opposed to just the SSP market, at the current SSP rate. The main arguments for this are that theft and unregistered sites are not exclusive to the SSP market and it would seem appropriate for the LSP market to contribute to those industry costs.

Theft of gas and unregistered sites are far less common, or detected less often, within the LSP market. However each occurrence, on average, will have a greater impact in terms of volume of unaccounted for gas. It is very difficult to quantify this as a proportion and therefore there is little or no evidence to support a full smear being introduced.

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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Other than for simplicity, it is also difficult to justify the use of the SSP rate for such a smear. For the “larger” LSP supply point rates are based on SOQ values and therefore would require calculation on a site by site basis.

Modification 115A, by removing Monthly Read Supply Points (AQ above 293,000 kWh), looks to use the “smaller” LSP transportation rate (applicable to NDM supply points between 73,200kWh and 732,000kWh,) which, as a fixed amount, would be simpler to apply and would appear to be a more proportional rate to apply to such a smear.

We do agree with both Proposals to exclude DM sites. The daily reconciliation process clearly allocates the correct apportionment of energy and should not be subject to a RbD smear as with SSP market and, potentially, the rest of the NDM sector.

The removal of Monthly Read Supply Points is justified by the read performance statistics presented within Modification Proposal 115A. This data is for a single shipper and may not be representative of the market sector as a whole. From initial analysis carried out on the national portfolio it can be shown that slightly less than 10% of the Monthly Read Supply Point population have not been read within the past 4 months. This equates to over 14,000 sites. The last information presented to the RbD Sub-Group showed that the average read period for a monthly reconciliation on Monthly Read sites was 49 days and there was a spread of reconciliation periods of up to 200 days. The basis for excluding DM sites should therefore, in our opinion, not be applied to Monthly Read sites.

We have also reviewed the Modification Report based on the extent to which implementation of the proposed modification would better facilitate the relevant objectives:

Standard Special Condition A11.1 (a): the pipe-line system to which this licence relates;

We agree that implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;

We agree that implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

We agree that the two tier transportation price for LDZ Transportation is more appropriate but this would not apply to the Monthly Read Supply Points under proposal 115A as they are excluded. If these supply points were included (as in proposal 115)

there is no standard rate to apply as they are based on SOQ on a site-by-site basis. We would support a 'flat' rate being applied to all NDM supply points that would be between the SSP rate and the "smaller" LSP rate; further work, discussion and a new modification would be required to establish this.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

As stated earlier we agree with principal of these modifications and that, due to the current RbD regime delivering an apparent over-allocation to the SSP market, a more equitable and accurate allocation of energy and transportation charges is required. The quandary both modifications present is that there is currently little substantiation to support the proposed allocations and associated rates, without further robust evidence it would be inappropriate to assume that implementation would deliver a more equitable solution.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;

We agree that implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

We agree that implementation would not be expected to better facilitate this relevant objective.

In summary, although we agree that the current allocation solely to the SSP market is inappropriate we can not support the proposed allocation as set out in Modification 115 or the exclusion of Monthly Read Supply Points that is put forward in Modification 115A; therefore we do not support implementation of either modification. We would suggest that, if the decision is taken to not implement either modification, that further industry discussions take place to establish an appropriate regime that is fair and equitable to both SSP and LSP markets.

If you have any questions regarding this Modification Proposal Representation please do not hesitate to contact me.



Yours sincerely

Simon Trivella
Wales & West Utilities