SmartestEnergy

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

FTAO Julian Majdanski

20th May 2008

Dear Julian,

Modification 0210 - Implementation of DNPC03 (LDZ System charges – Capacity Commodity Split and Interruptible Discounts)

As a way of background, SmartestEnergy have been operating as a Licensed Gas Supplier and Gas Shipper in the UK energy markets since 2001, focussing on providing trading services to independent power producers (end users), such as Rolls Royce Power Development Ltd (RR) .

Following the publication in 2006 of the Ofgem document "Conclusions on the review of the structure of gas distribution charges" and the proposal from the GDN's to amend their charging methodologies with effect from 1st October 2008, modification 0210 is proposed to deliver the appropriate changes to the UNC to allow amongst others the full implementation of DNPC03.

Whilst it is clear what DNPC03 is trying to deliver SmartestEnergy are increasingly concerned that the net impact of the introduction of DNPC03 and Mod proposal 90 is not understood fully. This seems to be particularly in the case for open cycle gas turbine facilities with low load factors, such as those owned and operated around the UK by RR. This group of end users supply "high value" peaking power generation to the national grid (NGT) at times of high system demand or system stress and currently have interruptible gas supply contracts with daily metered supply points.

The final impact assessment on the reform of interruption arrangements on gas distribution networks seems to consider the impact on combined cycle gas turbines (CCGT's) who typically run at high load factors and are not normally connected to the GDN's. There is however no evidence that the impact on GDN connected open cycle gas turbines (OCGT's) with low load factors (<2,000 hours per annum) was considered.

Typically this type of end user has low AQ's but high SOQ's as they are called upon to generate electricity only at peak demand times of the year. The net impact of the changes discussed will see typical gas transportation costs for this type of end user accounting for 24% of total gas costs, which is not sustainable.

Users who currently have interruptible supplies who are not located in areas where interruptible tenders are sought have no choice but to be "firm" from 2011. The consequence of this being they pay firm charges including NTS capacity charges from 2011. Mod ref 0210 again clouds the issue in that from 2008 until 2011 no NTS capacity charges are levied because the end users remain interruptible. The consequence is that end users, particularly power generation peaking providers with low AQ's and high SOQ's face a steep increase in their fixed costs from 2011 and will be substantially disadvantaged and new entrants to this market deterred at a time when they are required as key tools for NGT to efficiently and effectively Balance the power system. It has to be recognised that there is now a very strong link between the gas and electricity markets a point that seems here to have been entirely missed.

In conclusion therefore we attached a copy of the Representation we are submitting on behalf of Rolls Royce Power Development Ltd and we do encourage the Office of Gas Transporters to raise this issue with OFGEM to ensure that the impact on this group of end users is fully understood and decide what alleviation could be appropriate.

Yours faithfully

Steve Armitage
VP Commercial/Director