

John Bradley
Modification Panel Secretary
Joint Office of Gas Transporters
31 Homer Road
Solihull
B91 3LT

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ
T. 029 2027 8500
F. 0870 1450076
www.wwutilities.co.uk

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

22nd April 2009

Re: UNC Modification Proposals 0244, 0244B (“Amending DM Supply Point Data for Sites with Significant Changes in Usage”) & 0244A (“Introduction of an Exception Process for Decreases in Supply Point Capacity (SOQ) at Daily Metered Supply Points”)

Dear John,

Thank you for the opportunity to comment upon Modification Proposal 0244 and the two Alternative Proposals 0244A and 0244B.

1. Summary of Support

I can confirm the following on behalf of Wales & West Utilities Ltd:

Modification Proposal 0244 – We **do not support** implementation of this Modification Proposal

Modification Proposal 0244A – We have offered **comments** on this Modification Proposal

Modification Proposal 0244B – We have offered **comments** on this Modification Proposal

Preferences

When the Final Modification Report for these Modification Proposals is considered by the Modification Panel, members will be asked to express an order of ‘preference’ regardless of whether they are supportive of the Modification Proposals. This is a useful way to differentiate between Modification Proposals where members have supported, or not supported, two or more of the Modification Proposals. Where members are not supportive of Modification Proposals the preference expressed is often a view on which Modification Proposal they would rather see implemented if one of them had to be implemented.

Although we have not expressed outright support for any of these Modification Proposals our order of preference is as follows:

1. Modification Proposal 0244A
2. Modification Proposal 0244B
3. Modification Proposal 0244

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

2. The Modification Proposals

All three Modification Proposals seek to introduce arrangements from Daily Metered Supply Points that will enable them to reduce their Supply Point Capacity (SOQ) outside of the existing arrangements and to allow the SOQ value to be lower than the current Bottom-Stop Supply Point Capacity (BSSOQ). Although they are looking to afford similar opportunities to Users at DM Supply Points the Modification Proposals have quite different solutions.

Concerns were raised by the Distribution Network Operators (DNOs) about Modification Proposal 0244 in relation to the proposed process and issues with the potential cost and timescales that would be associated with implementation. The Proposer of Modification Proposal 0244 did consider the issues raised and did make a number of amendments to the Modification Proposal. However, not all of the concerns raised could be addressed within the framework of the Modification Proposal. This has resulted in WWU and National Grid Distribution raising Alternative Modification Proposals.

We have included a high level view of each Modification Proposal that gives our understanding of the main characteristics of each and highlights how they differ from each other.

Modification Proposal 0244

Implementation of this proposal would introduce a capacity (SOQ) reduction regime that is significantly different to the current Capacity Revision Application process. The main points of the Modification Proposal are:

- 1 – Sites would be able to nominate a revised Annual Quantity (AQ), SOQ, BSSOQ and Supply Point Offtake Rate (SHQ) subject to the AQ remaining above 73,200kWh and the SOQ being reduced by at least 20%.
- 2 – Reductions could take place at any time of the year (currently limited to the Capacity Reduction Period)
- 3 – An incentive / protection regime would be introduced that would use retrospective charging, for avoided Capacity Charges, where the process is used more than once within 12 months

Modification Proposal 0244A

Implementation of this proposal would introduce a capacity (SOQ) reduction regime that is based upon the existing Capacity Revision Application process and is designed to be an exception process only (i.e. only used in exceptional circumstances). The main points of the Modification Proposal are:

- 1 – The existing rules around capacity reductions would remain in place. Sites would be able to apply for the exception process if they were looking to reduce their SOQ to below their existing BSSOQ (UNC currently prevents this) or if they were looking to reduce to no less than the BSSOQ but outside of the Capacity Reduction Period.
- 2 – The relevant DNO would consider any application and have the ability to reject the application if they did not believe that it satisfied the criteria for the utilising the exception process.

3 – All other aspects of the Capacity Revision Application process would remain the same.

Modification Proposal 0244B

Implementation of this proposal would introduce a capacity (SOQ) reduction regime that is based upon the existing Capacity Revision Application process but would allow for greater reductions than with the existing regime. The main points of the Modification Proposal are:

1 – The existing rules around the Capacity Reduction Period would remain in place (i.e. the date the revised SOQ would become effective must be between October and January (inclusive)).

2 – Sites would be allowed to reduce their SOQ to be below the existing BSSOQ

3 – Supply Point Ratchets and Supply Point Ratchet Charges would apply to both Firm and Interruptible sites (currently only Firm sites)

Comments on the Modification Proposals

Modification Proposal 0244 seeks to introduce a process for DM Supply Points to allow them to amend various Supply Point data items. The data that could be subject to such amendments via the proposed process include the Annual Quantity (AQ), the Supply Point Capacity (SOQ), the Bottom-Stop Supply Point Capacity (BSSOQ) and the Supply Point Offtake Rate (SHQ).

To be able to amend such Supply Point data suggests that these items could be 'changed for the better' or 'changed and corrected by removing faults or errors'. We believe that it is inappropriate to introduce a process that allows for all such data items to be simply revised. The comment relates in particular to the BSSOQ. The BSSOQ is defined within UNC TPD Section G5.2.3(a) and is the highest User SPDQ for any day during October to May (inclusive) within the Preceding Year, or if higher, the Prevailing Supply Point Capacity following a Supply Point Ratchet (Firm DM Supply Points only). This is a calculated 'factual' data item and, in our opinion, it would be inappropriate to allow this to be simply 'amended'. However, we appreciate that the rule contained within UNC TPD Section G5.2.1 prevents a Registered User's Supply Point Capacity being less than the Bottom-Stop Supply Point Capacity.

The Proposer of Modification Proposal 0244 is seeking for a mechanism to amend the BSSOQ as the SOQ (under existing UNC arrangements) has to remain at least equal to it. Both Alternative Modification Proposals address this issue by allowing the SOQ to be reduced below the BSSOQ rather than allowing for incorrect BSSOQs to be nominated.

Modification Proposal 0244 also seeks to introduce an 'incentive regime' that is designed to prevent Users from taking advantage of a reduced SOQ, during a period of low usage, and then increasing the SOQ when the capacity is required (e.g. summer/winter profiling). We have concerns that this incentive regime would not be sufficient to prevent this scenario occurring and would be a large, and possibly unmanageable, administrative burden on the Transporters and/or the Transporters' Agency. As sites would only be liable to pay charges up to a level that they would have incurred this is more likely, in our opinion, to act as an incentive to utilise the regime.

Modification Proposal 0244 would require significant changes to be made to the UK Link system and DNOs own network management systems. Implementation timescales would need to allow for these changes to be made and it could take over 6 months to make such changes. Alternative

Modification Proposal 0244A would require fewer changes to be made to UK Link systems and few, if any, changes to DNO systems. It is anticipated that Modification Proposals 0244A could be implemented with 2-4 months. These dates are based on the high level analysis that xoserve have carried out and would be from the point that a decision from Ofgem is made. We hope to have more detail on implementation timescales and costs before the Modification Panel meeting on the 30th April 2009.

Modification Proposal 0244A attempts to put in place a more pragmatic and practical solution to the issue that the Proposer of Modification Proposal 0244 is trying to address. We believe that, out of the three options, Modification Proposal 0244A would deliver a solution that is closest to the process that NDM Supply Points can utilise (UNC TPD Section G 1.16.13).

Concerns have been raised that Modification Proposal 0244 would introduce a process that involves DNO discretion and that this may not be applied equally across all DNOs. We recognise that this could be the case but, as similar processes apply, and work elsewhere in UNC, we do not believe that this should be an issue.

Modification Proposal 0244B introduces Supply Point Ratchets and Charges for interruptible sites. This has been proposed instead of an application mechanism or an 'incentive' mechanism (as in Modification Proposal 0244). This would be an additional system change over and above the changes required for 0244A. From the initial analysis carried out by xoserve, it is likely that the cost and timescales involved with implementation of Modification Proposal 0244B will be greater than those associated with Modification Proposal 0244A. As above, once we have more information available on the costs and timescales we will publish these and make them available to Ofgem.

It is our understanding, and we believe this was clarified during discussions at Distribution Workstream, that Modification Proposal 0244 would not apply to vacant sites (regardless of duration). Both Alternative Modification Proposals 0244A and 0244B also do not apply to vacant sites.

The changes to the Interruption regime that were introduced through Modification Proposal 0090 and the change in the structure of transportation charges (95:5), have both been used as reasons that have contributed to the need for these Modification Proposals to be raised. A User can nominate a DM site to be Interruptible and it will receive a financial benefit for doing so. This has not changed as the new arrangements introduced by Modification Proposal 0090 do not take affect until October 2011. We would also point out that one of the main reasons for Modification Proposal 0090 was to review the apparent cross subsidy of transportation charges within the industry. We do not believe Modification Proposal 0090 should be cited as a reason for the need for such Modification Proposals.

The change to the structure of transportation charges that was implemented in October 2008 was based on lengthy industry discussion and consultation. Overall, it was decided that this was an appropriate mechanism for the basis of transportation charges. 96.5% of charges are based upon the registered Supply Point Capacity and it is this principle that could be undermined by the implementation of any of these Modification Proposals. A subsequent impact of this would be further socialisation of costs amongst the industry.

We can not offer support for Modification Proposal 0244. The main reason for this is that we do not believe that Supply Point data such as BSSOQ should be able to be amended. BSSOQs are factual pieces of data based upon actual consumption over a period of time. There are also

several consequential impacts of amending such data as it is used in by the transporters to manage their networks.

Modification Proposals 0244A and 0244B do not have such issues as Modification Proposal 0244A and 0244B. However, they would still result in an increase of socialised costs and the potential to undermine the basis for transportation charges. This has to be balanced against the industry financially assisting those customers (end users) that are seen to be unfairly constrained by the SOQ / BSSOQ rules.

On balance, we believe that Modification 0244A would be the most appropriate mechanism for achieving this aim. However, due to the nature of the transportation charging regime, and the apparent increase in the socialisation of costs that this creates, we can not offer our full support for its implementation.

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

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

We do not believe the Proposal will 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 do not believe the Proposal will 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;

Standard Special Condition A5 of the gas transporters licence requires, amongst other things, a Charging Methodology to be in place and for charges to reflect the costs incurred by the licensee in its transportation business. It could be argued that implementation of any of these Modification Proposals could better facilitate the "relevant methodology objectives" and therefore better facilitate this relevant objective.

However, it could also be argued that implementation of any of these Modification Proposals actually undermines the basis of the capacity and charging regime that exists within the industry. This would mean that the proposed processes could result in an increase of cross-subsidisation and/or socialisation of costs. This would be in direct conflict with this relevant objective.

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;

These Modification Proposals will enable Users to reduce the SOQ at DM Supply Points in line with the expected future usage at that site. Therefore it could be argued that this Modification Proposal would target costs more appropriately and so may better facilitate relevant objective A11.1(e)(i). However, we believe that the extent of this may depend upon which Modification Proposal, if any, is implemented. As with the comments above for A11.1(d), it could be argued that implementation of any of these Modification Proposals conflicts with this relevant objective as it increases socialisation of costs and undermines the capacity/commodity charging regime.

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 do not believe the Proposal will 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 do not believe the Proposal will better facilitate this relevant objective

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

a) Implications for operation of the system

We do not believe that implementation of Modification Proposal 0244A or 0244B would present such implications for the operation of the system. Modification Proposal 0244 could have a negative impact as it seeks to amend system data such as BSSOQs.

b) Development and capital cost and operating cost implications

There will development costs associated with all 3 Modification Proposals. The high level analysis that has been carried out so far suggests that the implementation timescales and costs for Modification Proposal 0244A would be less than those for Modification Proposals 0244 & 0244B. We hope to have more detail available prior to the Modification Panel meeting on the 30th April 2009.

c) Whether it is appropriate to recover all or any of the costs

No cost recovery has been suggested for the development costs relating to these Modification Proposals. The ongoing operating costs of any of these Modification Proposals could be subject to User Pays Charges, however, a separate Modification Proposal would be required to introduce these.

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

We do not believe there would be any consequences on price regulation from the implementation of this Proposal.

6. The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

There would be development implications for the UK Link System as a result of implementation of any of these 3 Modification Proposals. Modification Proposal 0244 may also result in changes to the network management systems used by the transporters.

19. Legal Text

WWU are preparing legal text for Modification Proposal 0244 and 0244A, this will be issued once the drafting has been completed.

In summary, I can confirm the following on behalf of Wales & West Utilities Ltd:

Modification Proposal 0244 – We **do not support** implementation of this Modification Proposal
Modification Proposal 0244A – We have offered **comments** on this Modification Proposal
Modification Proposal 0244B – We have offered **comments** on this Modification Proposal

If you have any questions relating to this Representation then please do not hesitate in contacting me.

Yours sincerely

{By e-mail}

Simon Trivella
Wales & West Utilities Ltd
Commercial Manager

Mobile: 07813 833174
e-mail: simon.trivella@wwutilities.co.uk