

18 February 2007



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Dear Sir or Madam

Distribution Networks Pricing Consultation Paper DNPC02

1. EIC is writing in response to the request for submissions to the above consultation document. EIC welcomes the opportunity to respond to this request, and would be happy to discuss this with you in depth at a future date if required.
2. As the UK's leading independent consultancy to industrial, commercial and public sector energy users, EIC was established in 1975 and currently represents over 600 industrial and commercial customers - including 40 per cent of the FTSE-100 companies.
3. The following text is the briefing note that was provided to EIC's subscriber base. I would like to draw your specific attention to the contents of Paragraph 14.

Important changes ahead for customers on interruptible supply contracts

4. All loads connected to the eight distribution networks (DNs) will be reclassified as firm under Uniform Network Code (UNC) Modification 0090, "*Revised DN Interruption Arrangements*". In addition, the Distribution Network Operators (DNOs) will be required to tender for interruption rights with the shippers in their area. Shippers to those loads that contract for interruption services will receive payments from the DNOs subject to how much interruptible capacity is called upon, while DNO will also be subject to an as yet undetermined incentive regime. The planned new regime will come into effect at the start of the 2010-2011 gas year, but the first major impacts on consumers could be felt this year.
5. While this may seem a long way off, DNOs will be able to contract for interruptible capacity at least three years ahead of the applicable gas year, and for multiple years' worth of interruption over a specified maximum number of days. Therefore, consumers seeking to offer interruptible capacity should be looking ahead to the summer of this year as a key time, given the three-year notice period. This is particularly important for those customers that want to retain both their interruptible status and the potential cost savings associated with that status.
6. It is unclear how this will affect the actual cost of gas paid by customers and also the nature of the supply charges levied on these customers. Current interruption arrangements see eligible customers granted interruptible status regardless of the probability of them actually being interrupted. As such, these customers gain a major discount in gas transportation costs, potentially benefiting their bottom line and costing National Grid revenue in the process. However, according to the indicative figures calculated by EIC using the current charging rates, the switch from interruptible to firm is equivalent to just over 1.75 p/therm on an average consumer's retail rate.
7. While this additional cost will be offset to some degree for those customers that successfully contract for interruption, there will inevitably be winners and losers under the new legislation. Indeed, the recent slump in Year-ahead retail rates will most likely make this change more keenly felt, given the fall in the wholesale price component of a customer's bill.

8. In short, the current practice of interruptible transportation charge discounts and payments will end with effect from 30 September 2010 if DN reform - as proposed in Mod 0090 is implemented, thus increasing the price of gas paid by consumers on such contracts. Assuming that the vast majority of very large daily metered customers (VLDMCs) have direct connections to the National Transmission System (NTS), then daily metered (DM) customers will be most affected by the change in legislation.
9. There are around 2,200 DM sites in the UK, of which EIC estimates around 64 per cent, or 1,400 sites, classed as Interruptible. Industrial businesses account for around 140 TWh (almost five billion therms) of gas, and the data indicates that a majority of this load is DM, with around 90 TWh estimated to be Interruptible. Even when the entire I&C market is considered, the DM market is estimated to account for around half of this load.
10. This volume is constantly changing, given the tendency for consumers to switch status, new sites to be developed, or some industries to scale down. However, based on average prices for the DM market, the load serviced is estimated to be worth almost £2 billion pounds. With regard to consumption, therefore, the market under review is a major proportion of the UK's demand, reflected by the obligations – and benefits – the industry currently awards DM and Interruptible sites with regard to system security.
11. Under the current regime, interruptible supply is available based upon annual consumption, with any site possessing an annual quantity (AQ) in excess of 200,000 therms being allowed the option to be deemed interruptible. Here, there will be no payment for LDZ capacity charges, as well as the potential for credits in terms of transportation charges. The justification for this is that, by being interruptible, there is less need for system reinforcement for the relevant loads, and hence less of an investment requirement compared to firm sites.
12. However, the planned regime change will see an option and exercise arrangement established, with all supply points deemed to be firm by default. While interruption services will still be required, their value in terms of interruptible capacity will be based upon the perceived commercial value of the service. While this will be dependent upon the contractual structure between the supplier and the customer, as far as the DNO is concerned, the value should be equivalent to the cost of reinforcing the system to meet the obligation of servicing a firm load.
13. The obligations upon the regulator, National Grid, and the DNOs are to ensure that this change in the transportation methodology meets certain criteria. These are as follows:
 - To ensure that the resultant charges are reflective of the costs incurred by the relevant organisation as part of its commercial operations;
 - The change in the charging methodology takes account of developments in the transportation business;
 - Competition is encouraged as a consequence of the change in the charging regime;
 - The commercial arrangements faced by customers as a consequence of the change in the regime will be determined outside of the context of the new regime, and by the affected parties themselves; and
 - All supply points should be treated on an equitable basis, with the option and exercise regime allowing shippers to place their own value on the interruption service they provide
14. As such, based upon the underlying assumption that this change in legislation will be introduced as planned, then EIC recommends the following to the DNOs and suppliers:
 - That all consumers be notified of the change in the legislation, as well as the potential impact on their energy spend, as soon as possible;
 - If required, this should take the form of workshops or public briefings in order to ensure that consumers are fully aware of the likely impact on their bills and what can be done to mitigate the increase;
 - That all consumers, where possible, be given equal and transparent treatment in the offering of their capacity for interruption. There will be an inevitable drive towards "low-hanging fruit" when interruptible capacity is contracted for, and EIC is keen to ensure that the same rights are seen to be offered on a non-discriminatory basis to all customers; and
 - That the change in legislation form part of, and not supersede or replace, any potential changes in terms of product evolution from suppliers. Ofgem, National Grid and the Department of Trade and Industry (DTI) have all stressed the benefit of demand side response products to the gas

market, and the contracting for interruptible capacity on an option and exercise basis should be offered on a competitively-priced basis alongside other procurement options.

We trust that this helps with your inquiry. However, should you wish to discuss this in more detail, please do not hesitate to contact me.

Yours sincerely

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