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4th July 2008

Re: UNC Modification Proposal 0215 "Enduring Arrangements for Supply Point Capacity decrease at an Interruptible Supply Point"

Dear Julian

Thank you for the invitation to comment upon this Modification Proposal, as the Proposer I can confirm that WWU fully **supports** its implementation.

We do not have anything further to add than we detailed within the Modification Proposal, however, we would like to this opportunity to respond to issues that has been raised in representations which have not previously been brought to our attention.

One respondent has raised a concern that an Interruptible User will gain a financial advantage by not paying LDZ Capacity Charges for any reduced Capacity. We would like to make it clear that this Modification Proposal does not change the process for reducing Capacity and this must still take place during the Capacity Reduction Period. If a Supply Point, whether it has Interruptible Capacity or not, reduces its Firm Capacity, it will see a reduction in LDZ Capacity Charges. We do not believe that implementation of this Modification Proposal introduces the ability for any Interruptible User to gain an unfair financial advantage.

In a separate representation the issue of potential cross subsidisation has been raised. The respondent has questioned how often a capacity reduction and a corresponding increase would actually occur. We agree that on a one-to-one basis it is unlikely to often occur, however, this proposed mechanism would be used in a variety of other circumstances (as detailed within the Proposal).

The respondent has also given an example of a DN using this process to account for capacity changes several years in advance. It is worth noting that in July 2008 the DNs will be looking to secure interruptible arrangements at Supply Points for 2011 onwards. Within the Transitional Period no Interruption payments will be made and hence no cross subsidisation can occur. Even once the Transitional Period has been completed we do not believe that cross subsidisation will occur as DNs will not continue to make Interruption Payments to a User unless it is the most cost effective way of managing the network (i.e. when compared to alternative action).

We therefore do not believe a methodology is necessary as each DN would need to evaluate whether it is more economic and efficient to make Interruption Option payments or to carry out the capital investment to account for any capacity constraint. It may be possible to replace the interruptible capacity by utilising the ad-hoc tender process; however, there will be circumstances where there are not suitable ‘alternative’ Supply Points (i.e. where the capacity requirement is at a specific location).

If you have any questions relating to this Representation please do not hesitate to contact me.

Yours sincerely

Simon Trivella
Commercial Analyst
Wales & West Utilities