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8th June 2009

Re: UNC Modification Proposal 0224 – Facilitating the use of AMR in the Daily Metered Elective Regime

Dear John,

Thank you for the opportunity to comment upon Modification Proposal 0224, we have set out our comments below to correspond with the relevant sections of the Draft Modification Report (DMR).

I can confirm that we, Wales & West Utilities, can only offer **comments** on the Modification Proposal at this stage.

The Modification Proposal

Modification Proposal 0224 has followed on from the previous Modification Proposal 0088 (*“Extension of DM service to enable Consumer Demand Side Management”* raised by TG&P in June 2006) and the Review Proposal 0175 (*“Encouraging Participation in the elective Daily Metered Regime”*) that this Modification Proposal builds upon.

The Distribution Network Operators (DNOs) and xoserve have worked with the Proposer to develop suitable business rules and processes for this Modification Proposal. The Modification Proposal has been classed as a User Pays Modification Proposal with Users funding the entire development and implementation costs. The day-to-day transactions are proposed to be funded by the relevant User (i.e. the Registered User at the “DM Elective” (DME) Supply Point). This charging proposal was discussed and developed within the Review Group and was deemed to be the most appropriate.

It is worth noting that the current charging proposal was presented by xoserve, on behalf of the DNOs, at the Distribution Workstream on 28th May 2009 and contains updated information from that detailed within the DMR. Although the charging proposal does not form part of the DMR we hope that Users will comment on the appropriateness of these charges within their representations. If the Modification Proposal was to be directed for Implementation by the Authority then the Transporters would issue a revised Agency Charging Statement (ACS) to the Authority on the same basis as the published charging proposal.

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

The Modification Proposal is based on a phased roll out with 3 distinct phases. The original reason for this phasing was to protect the UK Link systems from being overloaded and to allow the regime a period of bedding down. Users have provided Ofgem with their expected demand figures for the 3 roll out phases and this has been provided to the industry at an aggregate level (to protect any commercial sensitivities). It is clear from the demand figures that the 25,000 limit, that the Modification Proposal places upon the DME population, will not be reached within the 3 roll out phases.

Due to the relatively low demand figures within the first phase 1 (12 months) of the roll out, the DNOs and xoserve have set the transactional charges based upon the total expected population for phases 1 & 2 (24 months). This has been necessary to prevent the transactional charges being at a level that would be seen as a barrier to becoming. This effectively means that the DNOs will subsidise the DM Elective regime until the break even point (expected after 24 months). Any costs associated with the subsidy will be reflected in the transactional charges (as per the principles of Modification Proposal 0213 and the associated User Pays Guidance.

If the demand figures or profiles change from those that have been used for the basis of these charges then the Transporters will have to consider a further ACS amendment (in line with Standard Special Condition A15 “Agency” of the gas transporter license). Such an amendment would see charges being adjusted to ensure the appropriate level of cost recovery.

As the requirement for the phased roll out, based on the demand figures, is effectively redundant, there may be benefits from removing the phasing. This would allow a greater take-up rate and would potentially lead to lower transactional charges and remove the need for subsidisation by the DNOs. We appreciate that this can not change within this Modification Proposal unless the Proposer decided to issue a variation. The alternative course of action is for an applicable UNC party to raise a further Modification Proposal (if this Modification Proposal has been directed for Implementation). This could be done either prior to, or following, the implementation date. We would expect any such Modification Proposal to be discussed at the appropriate UNC industry meeting before being raised.

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 disagree with the Proposer as we do not believe that implementation of this Modification Proposal will better facilitate this relevant objective. As a DNO we receive information from various points on the network relating on a daily basis. We do not believe that the additional information from these sites will provide any significant benefit to the way in which we operate the network.

We also do not agree that implementation of this Modification Proposal would allow for greater demand side response (or how this would work in relation to DNOs) or that the DME regime would bring any significant benefits to the Firm Load Shedding process.

Our understanding is that the suggested Transporter benefits were seen by the Proposer as ‘consequential’ benefits and are not one of the main drivers for the implementation of this Modification Proposal.

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;

We do not believe that implementation of this Modification Proposal will better facilitate 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;

Implementation of this Modification Proposal may help to secure effective competition between shippers although we believe further justification of this is required.

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 that implementation of this Modification 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 that implementation of this Modification Proposal will better facilitate this relevant objective

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 this Modification Proposal would present such implications for the operation of the system.

b) Development and capital cost and operating cost implications

The development, implementation and ongoing operating costs of the proposed DME regime will be recovered from Shippers through User Pays Charges (subject to an ACS amendment). The development and implementation costs have been targeted at LSP Shippers in proportion to their portfolio of sites within the EUC bands 4-9. This methodology is based on the perceived benefits to the industry, and consumers, of this Modification Proposal and therefore should be funded by the relevant market sector.

If the LSP Shippers that are due to fund the implementation of this Modification Proposal are not supportive of it, we would have serious concerns in recommending its implementation when considering the Final Modification Report at the Modification Panel.

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

There are no benefits to Transporters from implementation of this Modification Proposal. It is therefore appropriate to recover all development, implementation and operating costs from the Users that could benefit from this and those that will utilise this DME regime.

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.

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal.

UNC Transportation Principal Document (TPD) Section H 1.6 (“NDM Sampling”) places obligations on the DNOs to obtain daily Offtake data from a sample of the NDM Supply Points. The introduction of the DME regime could see a number of the current NDM sample Supply Points becoming DME. As a result of this, these Supply Points would no longer be eligible to be used as a sample NDM Supply Point.

This may lead to the situation where the DNOs have a stranded asset and also need to find a suitable replacement NDM Supply Point (at its own cost). A similar scenario can occur for current Daily Metered sites that do not meet the Daily Read Requirement (these sites are often referred to as DM voluntary). If a DM voluntary site becomes DME, the DNO will not need to replace the Supply Point but would again suffer from the potential to have a stranded asset.

If this Modification Proposal is directed for implementation then we hope to work with the participating Users in an attempt to manage any transition from NDM sample Supply Points, or DM voluntary Supply Points, to the DME regime. If this is not possible, or is unsuccessful, then we will consider other options such as introducing ‘swap-out’ charges within our Metering Charging Statement (subject to industry discussion / consultation),

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Although this Modification Proposal relates to the potential use of AMR within the LSP market, it is not required for Suppliers to comply with their licence obligation for installation of such equipment.

Advantages

We do agree that the use of AMR does enable more information to be made available to customers. However, implementation of this Modification Proposal is not required to enable the use of AMR.

We would envisage that LSP Shippers perceive there to be benefits from eligible sites becoming subject to the DME regime and that this will be quantified within representations.

Disadvantages

If LSP Shippers (that have an eligible portfolio) are not supportive of this Modification Proposal there may be questions over the suitability of the proposed User Pays charging arrangements. However, we believe that this issue has been discussed at great length in Review Group meetings and that all Users (present) agreed that the proposed charging basis was the most appropriate.

There may be additional costs placed upon Transporters if sample NDM Supply Points or DM voluntary Supply Points become DME.

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

Yours sincerely

{By e-mail}

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