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Dear Tim

Regarding UNC Modification Proposals: 0244 – ‘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 (DM) Supply Points’ and 0244B – ‘Amending DM Supply Point Data for Sites with Significant Changes in Usage’.

Thank you for the opportunity to comment on the above proposals which seek to allow DM supply points to reduce their capacity charges when there is a significant change in usage. For the avoidance of doubt Corona Energy (CE) supports modification 244 and gives qualified support to modification 244A but is unable to support 244B.

In the event that all modifications can be implemented under similar timescales CE wishes to express preference for the modifications in the following order 244, 244A, 244B with 244 being the most preferred and 244B being the least preferred. In the event that modification 244A can be implemented under a significantly shorter timescale than 244 then CE wishes to express preference for the modifications in the following order 244A, 244, 244B with 244A being the most preferred and 244B being the least preferred.

History

Modification 244 was raised on behalf of DM consumers following feedback during the Gas Transporters’ Gas Customer Forum (January 2009) that DM customers were unable to reduce their exposure to capacity charges without their shipper isolating and withdrawing. CE notes therefore that Gas Transporters (GTs) were given the first opportunity to address this issue and to present a suitable solution to address the customer’s issues.



Following the meeting CE worked with customers and other gas suppliers across the industry to develop modification proposal 244 and to understand how the inequality between DM and NDM customers had been created. It became clear in an effort to ensure interruptible customers retained the existing level of discount during the change to a 95/5 percentage capacity/commodity split, the industry had removed the opportunity for DM customers to significantly reduce their exposure to transportation charges.

During the development of modification 244 DM gas customers expressed concerns that while the industry appeared motivated to address issues that affect gas suppliers, shippers and transporters (such as the 95/5 capacity/commodity changes) it did not seem similarly motivated to solve these issues facing consumers. While understanding the viewpoint of such consumers, CE also recognises the high degree of cooperation and support it has received from other industry participants in raising modification 244. CE also welcomes the work done by the GTs to raise alternative proposals.

Comparison of modifications

Modification 244

CE supports the intent of all three modifications and recognises that all three have a number of strengths and weaknesses. Modification 244 obligates the shipper to ensure that its customer qualifies to use the process. Right of access to the process is effectively warranted by the shipper and it is their responsibility to ensure the process is used appropriately. There has been a suggestion that this is a weakness in the process of 244. CE believes this is actually a strength in the 244 proposal as it avoids the requirements for GTs to perform site visits and checks when the supplier has already verified these details.

CE agrees with comments made in the Distribution Workstream that the risk of shippers being found to have breached the UNC and licence obligations should be sufficient to ensure that AOs and SOOs remain robust. CE is unconvinced that this process would be used inappropriately and believes that even if such behaviour occurred it could be easily identified and addressed by the regulator.

By allowing the Bottom Stop SOO to be changed Modification 244 also provides DM customers with the ability to reduce their charges appropriately. This is clearly an advantage for the customer. The disadvantage of this functionality appears to be the inability of the GTs agent to develop a method of implementing system functionality to support this change in a reasonable timescale.

Concerns have been raised also about the level of take-up of the use of the functionality offered in modification 244. CE believes such arguments suggest that



the rights of consumers should be linked to the nature and impact of flaws in IT systems. This could set the dangerous precedent that it is acceptable for customers to be disadvantaged wholly or partly to reduce the impact on supplier, shipper or transporter systems.

CE notes that offline functionality exists within xoserve to invoice sites off-line through the Unique Sites process. It would therefore be possible for the GTs to use this functionality as an interim measure in lieu of general system functionality.

CE therefore offers support for modification 244 but asks that Ofgem consider directing the GTs to implement the proposal in advance of general system functionality being developed.

Modification 244A

This modification provides customers with the right to apply for a reduction in their SOQ and therefore to reduce the level of their charges. The lack of a change in the level of the BSSOQ is not in itself a weakness but it does raise questions about the appropriateness of the use of the BSSOQ in the setting of transportation rates.

One of the disadvantages of proposal is its use of the existing Capacity Revision Application process which can be lengthy and is in places subjective. While this process has proved adequate to manage increases in capacity bookings it is unclear that it is appropriate for managing decreases in capacity bookings. For example it is unclear to CE why GTs should need to perform site visits to verify the usage of a site when the site is DM metered. In this aspect the approach of modification 244 of using the shipper/supplier relationship with the customer and a contractual obligation on the shipper to ensure the use of the process is warranted appears more appropriate.

CE welcomes this proposal from Wales and West Utilities and believes that despite the lack of shipper and customer control in much of the process it would represent a significant step forward.

Modification 244B

This modification also seeks to provide customers with the right to apply for a reduction in their SOQ and therefore to reduce the level of their charges. CE supports the intent of the proposal and thanks National Grid Distribution for its work in creating this alternative proposal.

Unfortunately this alternative modification has two significant flaws which led CE to the reluctant conclusion that it cannot support the proposal. The first of these flaws is



the change to the ratchet regime. CE understands the intent in the NGD proposal is for this to act as a disincentive for misuse of the process. Unfortunately it has the inadvertent consequence of changing the ratchet regime for all sites.

During the creation of modification proposal 244 CE considered a similar measure but discounted it when it was realised that this would have a fundamental impact on the operation of many interruptible and DM businesses. It was therefore felt that any such change to the ratchet regime would need to be considered much more carefully and as part of a review of the overall operation of the capacity regime including the use of the winter period and an annual AQ review.

The second flaw is the transitional nature of the proposal. The suggestion that the regime should expire on the 30th September 2011 suggest that NGM believe the inequality of rights between DM and NDM sites will either not exist after this date or will not matter. CE believes that neither is likely to be true but assumes that this comes from a hope from NGD that the recessionary pressures that CE highlights in modification 244 will be reduced by this date.

CE agrees with NGD that it is good practice to re-examine all processes (both internal and external) from time to time to ensure they are fit for purpose. It would appear unwise however for the industry to implement expiry dates on processes without having replacement processes ready.

Effects of the proposals on other consumers

In drafting modification 244, CE was aware that allowing users to reduce their exposure to transportation charges could reduce the level of revenue collected by the Distribution Network Operators. As any under recovery would result in an increase in future charges this could affect the charges received by all gas users.

CE noted however that without allowing large users to reduce their exposure to transportation charges the industry would force some customers to isolate and withdraw leaving all capacity investments stranded leading to higher charges for all.

It was noted that any arguments that such stranded capacity could be reused at some point in the future would apply equally to capacity freed through the use of the 244 mechanism as that freed from isolation and withdrawal.

CE also balanced the potential socialisation of costs across all users against both the rights of the individual user to control their cost and the long term benefits provided by encouraging users to stay connected to the network, albeit at a lower capacity booking level. CE recognised that for NDM customers the BTU process allows them to control their transportation costs and it was therefore purely the DM users that required functionality to allow this.



Having identified the difference in the rights and opportunities afforded to DM and NDM customers it appears evident that were the status quo to continue it would constitute undue discrimination between these groups of consumers. CE notes that during the development discussions of modification 244 no party provided any arguments or suggestions that supported due discrimination between DM and NDM customers.

Effect on DNO Cash Flow

It could be argued that the dual effect of AMR and an economic slowdown have been realistic possibilities for some time and should to some extent been addressed earlier by the industry. Certainly the predictions of growth in NDM demand found in numerous submissions to the GDPCR have proved inaccurate.

It would appear that any concerns over cash flow due to the implementation of such a mechanism should be tempered with consideration of the relevant powers, rights and duties of participants. In the context of DNO connected customer it appears entirely unfair to charge a specific group of customers for a service they no longer want or need to protect the income of a regulated monopoly.

I trust these comments are helpful. If you have any queries regarding this response please contact Richard Street on 0208 632 8169.

Yours,

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Regulatory Affairs Manager
Corona Energy

*please note as this letter has been delivered electronically a signature will not be attached