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Dear Tim

## **Response to 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**

#### **0244B - Amending DM Supply Point Data for Sites with Significant Changes in Usage.**

As a supplier to all market sectors we feel able to take a balanced view of the above proposals. The existing rules around reducing supply point capacity at DM supply points have been in place, we understand since the inception of the network code in 1996.

The sudden and severe nature of the economic downturn has led to large scale reduction in gas consumption in some market sectors with consequential reduced capacity requirements for many large daily metered industrial and commercial consumers. This has understandably led to calls for rule changes to allow capacity reduction, both outside of the existing October to January window and below the previous winter peak day consumption or Bottom Stop SOQ.

We are sympathetic to these calls but must point out the negatives, particularly in terms of the affect on other DM consumers and all NDM consumers plus the

potential risk to those consumers who may be seeking temporary capacity reductions.

Any reduction in capacity will lead to an under-recovery in transportation revenue at those DM supply points versus the anticipated recovery. This will result in an equivalent increase at other supply points. Clearly this is unavoidable in instances where a site closes completely, however a scenario whereby capacity can be reduced according to the particular requirements at the time is likely to lead to frequent fluctuations in transportation cost apportionment. The associated 'lost transportation revenue' would have to be charged to other users and therefore other consumers, thus creating a cross-subsidy between market sectors.

We believe that there is a major concern for any consumer seeking capacity reduction on a non-permanent basis. If the reduction is intended to remain in place for the duration of the downturn in the hope that at some point in the future economic recovery will allow consumption to rise to previous levels, there is no guarantee whatsoever that the capacity will be available when it is required. Indeed, in some areas of Great Britain, severe capacity constraints are likely to arise following the outcome of the recently introduced changes to the Interruptible Regime. We understand that some networks are facing substantial reinforcement to allow the large number of existing interruptible supply points to become firm in 2011. In any event there is no way to reserve capacity for the future even in areas where currently there are no capacity constraints.

This risk is to be measured against likely savings in capacity charges. Our analysis shows that for a typical firm daily metered industrial consumer paying in the order of £500,000 per month as a total bill, the associated capacity costs are around £10,000 per month or 2%. A reduction in production would not necessarily result in a proportional reduction in capacity requirements. For example a change from three shift to two shift operation may still require maximum capacity on a daily basis to operate plant. Even a proportional reduction of around 30% for both total and daily usage would only deliver a £3,300 per month saving. Whilst we certainly do not dismiss such savings we would caution against facing the associated potential risk of not being able to return to full capacity in the future. Not only may there be substantial reinforcement costs, but possibly of equal importance the time scales for reinforcement may inhibit any production plans. We absolutely acknowledge that there are many sites much larger than this, however the proportional savings and associated risks remain.

The existing UNC business rules have ensured that users book capacity for the required maximum daily requirement to cover annual requirements. Whilst these have proved robust in preventing swings of capacity booking, there may be valid

reasons to review them to reduce timescales where genuine and permanent changes have occurred at sites and the capacity requirement is no longer required. The rules can see users and therefore consumers paying for more capacity than they need. In extreme cases this can be for periods up to twenty four months. In cases where the site is to close completely the solution is to carry out isolation allowing the user to withdraw ownership and cease charges. In many cases the site will be closed for production but a much smaller supply will still be required, then the option exists to re register the supply point as NDM. In these instances existing UNC processes exist to reduce the AQ and consequently the SOQ.

We have no information upon the likely take up following the implementation of any of the proposals and therefore no way to objectively consider the consequential cost impact on other consumers.

Should any changes be made to the business rules we believe that they should be on a temporary basis allowing sufficient time for a more considered review to follow.

Of the three proposals we feel that 0244A would better deliver a short term solution. We do have concerns however, not just for the reasons given above, but also that the transporter would have sole discretion to award the 'exceptional reduction' and in a none transparent way.

Therefore we are only able to offer qualified support to Modification Proposal 0244A. We do not support Modification Proposals 0244 & 0244B.

Yours sincerely

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Retail Regulation