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Dear Tim,

**Regarding UNC Modification Proposals: 0275 (Urgent) – ‘Reduction in DM LDZ Exit Capacity for Supply Points 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. For the avoidance of doubt Corona Energy (CE) supports modification 275.

#### History

This proposal has been raised by National Grid Distribution (NGD) following feedback from Ofgem that the Modifications 244, 244A and 244B failed principally due to a lack of analysis being available to understand the potential impacts of the proposals. To address these issues National Grid Distribution raised a review group (RV264) to consider these issues.

In the first meetings of RV264 consumers and I&C shippers made clear that while a long-term solution may be possible there was an urgent need to address the concerns of large DM users that they were being disadvantaged. National Grid recognised this concern and agreed to progress an urgent proposal to address this issue.

#### The proposal

As the originator of proposal 244, CE met NGD a number of times in an effort to develop a proposal which would mitigate the short-term issues of large gas consumers but that would limit the system implications of implementation. The result of those discussions was this proposal 275 put forward by NGD.

CE believes that this proposal would constitute a limited but appropriate improvement in the conditions imposed on DM customers for access to capacity.



As identified by CE in modification 244 different regimes existing for access to capacity between NDM and DM sites. Due to a combination of these historical differences and the change to the interruption regime DM sites have found themselves disadvantaged in comparison to NDM sites when attempting to 'appeal' the data held by the industry.

The NDM regime currently allows a user to appeal the AQ and thereby their SOQ at anytime irrespective of previous usage. This proposal would only allow DM sites the same opportunity during a small window (until the end of January).

### Evidence of Need or Requirement

There has been significant discussion over the last six months about this issue. One argument that has been made repeatedly has been that parties are unsure of the need for this functionality. CE would like to take this opportunity to highlight the following three points in this regard:

1. CE raised modification 244 in response to consumer feedback that the existing regime was unfair. It is also notable the level of consumer support that has been expressed on this issue. This consumer support has dwarfed the support given to any other modification proposal in the last three years.
2. Statoil and others have made public statements that they have customers that have expressed an interest in this.
3. CE do not believe this is a relevant issue as it believes the implementation of this proposal is one of principle. CE believes discrimination between users should only exist where it is clear that it is appropriate and it is only where it can be proved that discrimination is 'due' that it should remain. (This is a principle that Ofgem has referred to recently in Review Group 251.) CE has never been provided with any justification why DM users should uniquely be unable to reduce their SOQ through some form of appeal mechanism.

### Reallocation of costs

Another argument that has been made by some against this proposal is that it would create a re-allocation of costs between users. This is the same argument that the proposal would create a stranding of transportation assets. This is because when a user releases capacity or disconnects from the network then the costs of such assets or the 'spare' capacity that it leaves is borne by all users.

Again CE believes the premise of this argument is flawed. Consumers are currently able to connect and disconnect from networks and LSP NDM customers are able to appeal down their AQs/SOQs. The costs or benefits of any under or over recovery by the Gas Transporters of transportation revenue created are currently smeared across all users. It is therefore correct to state that the current arrangements require



that DM users pay for the costs of NDM customer reducing capacity either by disconnection or through the use of an appeal mechanism.

This proposal is not therefore creating an imbalance in the fairness of such smearing but correcting an unfair imbalance that currently exists.

### Calculation of Costs/Benefit

Unfortunately due to the nature of the use of such a mechanism it is difficult to identify what the likely cost benefit of this change will be. CE is not able to provide any greater clarity on this issue but can suggest the relevant issues it believes Ofgem needs to address.

1. Likely use of the service (High, Mid Low)
2. Cost of providing the functionality
3. Avoided cost by the end consumer of not providing the functionality (Small, Medium, Large) based on:
  - a. A 30% reduction in load
  - b. A 50% reduction in load
  - c. A 70% reduction in load
4. Benefit provided by releasing unused capacity which would avoid unnecessary reinforcement where other users wish to connect or increase their use of capacity

As previously stated however CE believes that the results of any cost/benefit analysis should be considered on the basis of understanding whether discrimination is due or undue.

### Abuse

CE is confident that users will not abuse the proposed process. Not only would abusing the process put a user in breach of their shipper licence it would not provide any material benefit as the mechanism includes a recovery mechanism to claw back any potential gain.

### Conclusion

The current arrangements restrict DM unfairly. While NDM users are able to appeal their AQ and thereby reduce their SOQ (limiting their exposure to capacity costs), DM consumers are unable to change their SOQ to reflect their reduced demand. This limits their ability to revise their SOQ to the level of their peak consumption during the



previous winter (Bottom Stop SOQ). The timings associated with process mean that in some cases a reduction in SOQ this can take up to two years. This leads to DM consumers paying for capacity that they will not use, creating unnecessary costs and decreasing competitiveness.

CE agree with the NGM that the implementation of this proposal would better facilitate the relevant objectives by improving the cost reflectivity of the regime during the period in which this proposal applies and so securing effective competition between shippers and suppliers.

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

Yours,

Richard Street\*  
Regulatory Affairs Manager  
Corona Energy

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