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Manager, UK Gas Supplies

Dear Tim

Modification Proposal 0275, Reduction of DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage (Support)

We write to support National Grid's proposed modification and urge its soonest implementation. Our general comments are as follow:

1. This proposal will probably result in a lower uptake from consumers than if implementation had been achieved earlier in 2009. Lower uptake however is no basis to reject the current proposal; this is not necessarily due to the welcome upturn in the economy but to latest BSSOQ's now reflecting foreseeable demand. In Corus' case we understand the drop in demand for our products occurred much later in 2008 than most other manufacturing sectors. We therefore have examples of our sites being caught-out by the 'lag effect' caused by the bottom stop rule. This prevents a review of fixed costs to bring these into line with sites' permanent requirements. In these circumstances this proposal will bring some relief from unnecessary fixed cost.
2. Notwithstanding our general support, we should point out certain deficiencies in the current proposal. We note the interruptible 'ratchet' proposal assumes a retrospective penalty charge which is not related to the scale and impact of the breach. This also applies to capacity on which the end-user has no firm rights. This reads as a punitive charge of greater severity than the firm ratchet regime. However, our understanding is that a higher SOQ (than the capacity figure achieved from this process) can still be agreed without penalty and within-year, provided this is notified in advance via the normal channels for capacity reservation.
3. The proposal is also deficient in that it fails to widen the capacity reduction window. End users will take time to review further capacity changes. In Corus' case we have some potential to take advantage of this proposal but this is subject to final business concurrence. If the current proposal is accepted this review would take in our case no less than 1 month as particular care needs to be taken to ensure nothing restricts future recovery or development. However, at this stage we recognise that further amendments to the current proposal may delay implementation.

4. Finally, whilst we value constructive working relationships with all industry participants, we want to record our disappointment regarding the bureaucratic way in which this matter has been addressed, not least because Corus' original concern about it was first communicated in January 2009. Ofgem's rejection of this original modification proposal was largely based on the perceived interests of the domestic user. Our position regarding this assumption remains unaltered; the domestic user has little to gain from punitive and judgemental treatment towards what remains of British Industry. Given the exceptional prevailing economic conditions it would have been reasonable to expect the gas industry to respond with a higher degree of urgency and pace.

Yours sincerely

Alison Meldrum

Manager, UK Gas Supplies

cc: Brian Greenwood, Deputy Head of Manufacturing & Materials, BIS

cc: Paul McIntyre, Director Energy Security and Markets, DECC