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3rd December 2009

Re: UNC Modification Proposal 0275 “Reduction in LDZ Exit Capacity for Supply Points with Significant Change in Usage”

Dear John

Thank you for the opportunity to comment upon this Modification Proposal. Wales & West Utilities (WWU) are entirely sympathetic to those Industrial & Commercial (I&C) customers that have been adversely affected by the current economic climate. We would like to make the following comments in respect to this Urgent Modification Proposal.

Modification Proposal 0244 (“*Amending DM Supply Point Data for Sites with Significant Changes in Usage*”) was raised by Corona Energy in March 2009 as a result of discussions with consumers and consumer representatives at the Gas Customer Forum. The Modification Proposal sought a solution that had a significant impact on Transporter and xoserve processes. As a result of this, two alternative Modification Proposals were raised by ourselves, 0224A, and by National Grid Distribution, 0244B.

Several issues were identified with the 0244 suite of Modification Proposals which led to all of them failing to get a recommendation to implement from the Modification Panel. Ofgem subsequently determined that none of them should be implemented by the Transporters. Ofgem raised a number of issues within their decision letter that had prevented them from being able to direct the Transporters to implementation any one of them. Ofgem also requested that the matter was considered further by the industry and namely the Transporters (specifically the Distribution Network Operators).

In July 2009 National Grid Distribution raised the Review Proposal 0264 (“*Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points*”) to investigate whether a short term solution could be developed that would offer the transitional relief that I&C consumers were looking for. The 0264 Review Group is also looking at the longer term situation and, with the changes to the DN Interruption regime in October 2011, how Capacity increases, decreases and charges may need to change in future. We would encourage consumers and consumer representatives to continue to participate in the Review Group as their input is valued.

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

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At the 29 September 2009 meeting of Review Group 0264 Ofgem reiterated the expectations that had been set out in their decision letter for Modification Proposal 0244, 0244A and 0244B. Ofgem made it clear that if a subsequent Modification Proposal was to be raised that it must include the following:

1. Evidence of need.
2. Sufficient evidence to conclude whether:
 - a. In practice NDM customers do reduce their capacity with significant impact on the rest of customers, or
 - b. Allowing DM sites to reduce their capacity in a similar way to NDM customers would not give rise to inappropriate increase in the share of GDN costs that are paid by NDM customers
3. Evidence that any transitional relief or a long term solution avoids the risk of gaming
4. Evidence to quantify the potential impact of a proposal on consumers. Both those directly affected by the modification and the broader consumer base.
5. Evidence that a proposal better meets the relevant objectives.

The Review Group, and National Grid Distribution as the Proposer, considered all these points prior to formally raising Modification Proposal 0275. This has meant that, due to the timescales associated with the Capacity Reduction Period, that the Modification Proposal required Urgent status. However, it was deemed vital to address Ofgem's concerns to allow the industry, the Modification Panel and Ofgem, every opportunity to be able to recommend and direct implementation.

Taking each of Ofgem's points in turn we can make the following comments / observations:

- 1) In early October 2009, a note was issued to the industry by National Grid Distribution on behalf of all Transporters requesting that Shippers provide, on a confidential basis, information relating to Supply Points that would want to take advantage of this Modification Proposal. Due to the commercial nature of such information, customers were also invited to supply this information direct to either the Joint Office of Gas Transporters or to Ofgem. We would encourage any Shipper, Supplier or customer that would wish to utilise the proposed mechanism within Modification Proposal 0275, and has not already done so, that they contact Ofgem directly to allow them to consider this alongside the Final Modification Report.
- 2) At the 14 October 2009 meeting of Review Group 0264 the Transporters and xoserve presented various statistics on capacity reduction activity. This included analysis on the number and size (energy) of DM supply point capacity reductions and the number and size of NDM supply points that had used the BTU Form process. In both cases this appeared to be fairly minimal and did not demonstrate that there was any inappropriate increase in the share of LDZ Capacity Charges from NDM customers to DM customers or vice versa.

The Transporters also presented on how LDZ revenue is split across the different customer types. The spread across sectors is fairly consistent for all Transporters with DM customers accounting for, on average, just 4.2% of all LDZ Capacity Charges (2.8% for DM Firm sites

and 1.4% for DM Interruptible sites). In conjunction with the analysis that has been provided by National Grid Distribution, we believe that it has been demonstrated that the potential of a significant cross subsidy by the NDM market is limited.

- 3) The Modification Proposal contains a 'catch up' mechanism that has been designed to prevent, or at least minimise, gaming opportunities. The rules around Registered Supply Point Capacity remain unchanged by this Modification Proposal and therefore any customer that reduces their SOQ has no guarantees that the Capacity will still be available if they subsequently wish to increase it (in full or partially). We are aware that a number of customers regard the potential loss of Capacity as too great a risk to utilise the proposed amendment process, this, in our opinion, should act as a sufficient safeguard that only those customers that truly need 'transitional relief' benefit from this.
- 4) We have commented on the potential impacts above in point (2). We have included below some further analysis that we have carried out based upon the indicative information that was received as part of the Review Group 0264 information request in October 2009.
- 5) The Proposer has suggested that the implementation of this Modification Proposal is likely to better facilitate Standard Special Condition A11.1 (d) of the Transporter licence and potential benefits under A11.1 (b) and A11.1 (d). Although we believe the impact and potential cross subsidy from the NDM market is fairly limited, we are not directly impacted by this. We believe that representations, by Shippers, Suppliers and consumers / consumer representatives, made in respect of this Modification Proposal will be critical in determining the extent to which this Modification Proposal better facilitates the relevant objectives.

As mentioned above, we have carried out similar analysis to National Grid Distribution based upon the limited response to the information request that was issued. We would like to make it clear that the analysis incorporates the reduction at 23.9% of DM sites and an 87.7% reduction to SOQs at all DM sites as this was suggested within the two responses. If we apply a similar principle to our own DM portfolio we would see a financial impact of approximately £1.5m. National Grid has recently updated this analysis to include 'Unique Sites'. If we were to do the same, the impact would increase to no more than £2m.

If there is any further information that Ofgem require from us to enable them to come to an appropriate decision, regarding whether to direct implementation of Modification Proposal 0275, we would, where possible, happily provide this.

If anyone has any questions relating to this representation then please do not hesitate to contact me.

Yours sincerely

{By email}

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