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Sonia Brown
Director - DN Sale Project
Ofgem
9 Millbank
London SW1P 3GE

Eddie Proffitt
Gas Group Chairman
The Foel
Vivod
Llangollen, LL20 7LP

Phone 01978 861128
Fax 01978 860531
Mobile 07879 255251
eddie.proffitt@meuc.co.uk

Dear Sonia

Document 146/04 Interruptible Arrangements RIA.

I am sure you are well aware of my view but let me restate it for the record, MEUC support option 1 maintaining the status quo.

The Major Energy Users Council represent a wide range of consumers in the Industrial and Commercial sector of the market. Our members' interests cover Government bodies, large industrial companies, major multi site retail operations, major food retailers and Local Authorities.

Of our member companies 2/3 have firm contracts and the remainder interruptible, however not a single member has supported the concept that we need to change the interruptible arrangements. It is clear that firm sites view interruptible as their insurance policy to ensure security of supply at times of high demand.

It should be pointed out that the benefit of being interruptible has been eroded significantly since the introduction of competition. Under the British Gas regime an interruptible site could expect to save up to 40% of their delivered cost of gas. This saving is now on average under 4%.

This reduction in benefit I believe is evidenced by the chart in your report, which shows that the number of interruptible sites has reduced by 13.5% in the last 4 years.

Because of this erosion of benefit a considerable number of members have indicated that if the regime is changed they intend to request firm transportation. The main deterrent in the past has been the cost of re-enforcement quoted by Transco when they have requested a change. The

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recent Ofgem ruling on the NTS connection, if applied to LDZs would remove this barrier to change.

Currently some 10% of all gas transported by LDZs is done on interruptible contracts. If change is implemented leading to a significant number of sites requesting firm status the new DN owners will face major investment in re-enforcement within the first 3 years of their ownership. This increase in investment will allow DN owners to recover more revenue leading to higher charges for all consumers. This has been ignored in the RIA and will more than wipe out any benefit.

Moving on to the potential benefit of introducing change. Each shipper I have spoken to question the low cost assumed for implementation however let us ignore that for the present.

In order to put the RIA into perspective, I believe that the maximum NPV benefit of £22 million equates to an annual saving of about £2 million. This is on a total transportation cost of over £3 billion. Transco currently transports over 39 billion therms per annum therefore £2 million equates to a saving of just 0.005 pence per therm at a time when gas prices have increased by over 10 pence per therm. Or put another way 4 pence per year saving for a domestic consumer!

Looking at the timing of the proposed change. It has been made clear at a recent DISG meeting that Ofgem anticipates and welcomes that new DN owners will wish to develop their own pricing methodologies. Therefore I question why Ofgem are pressing for a new universal exit methodology at this time. A more sensible approach would be to allow the sale of DNs to take place under a well-established regime and for changes to be allowed to take place if the new owners believe it will benefit their businesses and consumers or they were not meeting their licence conditions.

It should be pointed out that we have experienced some years of disruption following the introduction of entry capacity auctions which have not been completely resolved some 5 years on (hence the recent PC 78). With the potential sale of DNs the gas industry is facing the biggest change since privatisation and does not need the added complication of exit reform at this time.

In addition questions have been raised about the security of supply over the next few winters. In such conditions stability of the regime is what is required.

We in MEUC are not Luddites and accept that the existing regime is not perfect. We have invested considerable time in the Transco exit reform workstream

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which I believe left to its own devices would have eventually developed a regime acceptable to the whole of the industry. I doubt it would have included tenders nor would it give long term investment signals but I believe it would have addressed some of the more contentious issues such as who has the right to choose whether a site can be interruptible.

The Chairman of Ofgem has recently stated that you will be a listening organisation and will look for industry led solutions. I have spoken to all the leading suppliers, shippers and consumer representative bodies and have found universal opposition to change of the interruptible regime. I therefore urge Ofgem to please listen to the whole of the industry, accept option 1 as the best way forward for the interruptible regime at this time and allow Transco to re-establish their workstream as a way of developing new proposals.

Yours truly,

A handwritten signature in black ink, appearing to read 'Eddie'.

Eddie Proffitt
Gas Group Chairman

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