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19 October 2005

Dear Mark

Consultation letter – Initial proposals on transitional incentive schemes supporting the offtake arrangements

I am writing further to the above initial proposals paper on behalf of Wales and West Utilities. Please see our detailed response attached.

I trust our comments are helpful, if you require any further information please contact me on 02920 588290 (bwestlake@wwutilities.co.uk) or contact Liz Spierling, Commercial Manager on 02920 588083 or liz.spierling@wwutilities.co.uk.

Yours sincerely

Bob Westlake
Regulation Manager



Transitional Incentive Schemes – Initial Proposals – September 2005

Wales & West Utilities response

1. Proposed targets for NTS Offtake (flat) capacity and NTS offtake (flexible) capacity

Wales & West Utilities (WWU) agree with the Ofgem proposal to use the volumes consistent with our 1 in 20 obligation to derive the DN volume targets.

The figures that Ofgem has published are, on average, higher than those requested by the DN.

In the baseline year 07/08, where the differences are most significant, this would have the effect of skewing the incentive (effectively increasing the cap and reducing the collar). This could create the impression that WWU had overbooked capacity – thus exhibiting the behaviour Ofgem has previously attributed to DNs. If growth were below that shown in Appendix 1 then the DN requirement could be lower than that requested and WWU would appear to have significantly overbooked capacity rather than managed and developed the capacity of the Distribution Network.

In the years 09/10 and 10/11, the targets appear to assume a degree of substitutability between exit zones that is not reflected in either the DN request or the recently published WWU Transportation Ten Years Statement. Whilst some additional substitutability may be possible the level indicated is unlikely.

2. Reference price for NTS exit rights

WWU agrees in principle with the Ofgem proposal that the reference price should be the NTS exit charge.

Ofgem's presentation to the UNC Transmission Workstream (Mark Feather October 6th) confirmed the intention to use the prevailing price of NTS exit capacity as the reference price.

However, in comparing NTS directly connected (DC) customers and DNs, no consideration is taken of the difference in timescales applied to these two categories of connectees. DC customers tend to finalise their booking commitments closer to the time when the capacity is required, therefore the price is more transparent to them. DNs are making capacity commitments more than 3 years in advance and are exposed to more risk of exit charge variations. The introduction of a market for secondary trading would ensure that this risk is manageable.

Changes to NTS exit pricing as a result of the Transmission Price Control Review may be more significant and Ofgem have confirmed that this could be treated as an Income Adjusting Event subject to the appropriate requirements being met.

3. Proposed definition of caps, collars and sharing factors

Wales & West Utilities (WWU) agree with the Ofgem proposal to continue with the current definition of caps, collars and sharing factors.

4. Interruptions Incentive

WWU support the Ofgem proposal to remove this incentive and include its review as part of the DN interruption reform. However it is important that this review takes place in a timely manner to ensure that the Transmission and Distribution arrangements are aligned and deliver equitable treatment of interruptible customers across the gas supply system.

5. Duration of regime

WWU agrees in principle with the Ofgem proposal to introduce an incentive scheme for the whole transitional period. A scheme of any shorter duration would lead to further uncertainty and would potentially introduce the third scheme between Network sales and GDPCR. The DNs need clarity about their operational framework to allow the efficient and economic development and management of the Distribution Networks. However it would be desirable to reassess the impact and desirability of these incentives following Gas Distribution Price Control Review (GDPCR).

8. Next Steps

WW&U support the Ofgem initial proposals for the transitional incentive schemes supporting the Offtake arrangements.