

## **Transitional Incentive Schemes – Final Proposals – December 2005**

### **Wales & West Utilities response**

Wales & West Utilities support the Ofgem proposals for the Transitional Incentives. As the final proposals are broadly consistent with the interim proposals we have limited additional comments to make. Our main observations relate to the impact of UNC modification proposal 0046 and the National Grid proposed IExCR and ARCA documents.

#### **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 in Table A2.3 are consistent with those requested by the DN. However the figures included in Annex 1 (taken from the National Grid IExCR document) contain significant errors. This has been raised with National Grid and a formal response is awaited.

#### **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.

WWU still has concerns about the comparison of NTS directly connected (DC) customers and DNs, with no consideration taken of the difference in timescales applied to these two categories of connectees.

Changes to NTS exit pricing as a result of the Transmission Price Control Review may be significant and Ofgem have confirmed that this could be treated as an Income Adjusting Event subject to the appropriate requirements being met. WWU are pleased to note that these requirements are now subject to a separate consultation.

#### **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. The introduction of an absolute cap/ collar is appropriate.

#### **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. The DNs need clarity about their operational framework to allow the efficient and economic development and management of the Distribution Networks.

## **6. Licence modifications**

The clarification of the definition of “NTS Exit Capacity”, when referring to Offtakes, is welcome. In addition the cross-reference to definitions in UNC is useful.

## **7. National Grid IExCR and DN ARCA consultation**

The DN ARCA transfers the financial risk associated with any connection facility to the connectee. This does not appear to be consistent with Ofgem aspirations, stated in the terms of reference of the Enduring Offtake Working Group, regarding the appropriate allocation of risk

In the Ofgem consultation paragraph 2.13 makes reference to specific reinforcement for an Offtake point or group of Offtake points. This grouping is not mentioned in the National Grid documents. If National Grid were to use this grouping as part of their assessment for specific reinforcement DNs would be exposed to the requirement for a DN ARCA in significantly more instances than for a single Offtake.

## **8. Next Steps**

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