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Ms Joanna Whittington
Director – Gas Distribution
Ofgem
9 Millbank
London
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Dear Joanna

Re: Reform of interruptible arrangements on gas distribution networks.

I wish to respond to the above consultation on behalf of MEUC members. Our views have been expressed many times before in response to previous consultations on this topic and are briefly captured in section 2.13 of your consultation. Our view remains that reform of interruptible arrangements is an unnecessary diversion, increasing complexity in the present market and that the interim arrangements should be made permanent.

Throughout the consultation there is an assumption that currently there is too much interruptible capacity available and that this is proved by the low level of interruption being called. This assumption ignores the fact that we have had a series of warm winters. In addition transporters' have provided no public evidence regarding the level of interruption required to meet their 1 in 20 licence obligation.

Much has been made of the extra cost being borne by firm sites because of the extra interruption that is available. In order to put this into context I have made the following calculation.

Annual volume of GDN interruptible gas 3,500 million therms (NG 2005 10 year statement)

Average GDN capacity charge 0.67 p/therm

Therefore total lost revenue £23 million.

Annual total demand 34,000 million therms

Extra 0.067 p/therm.

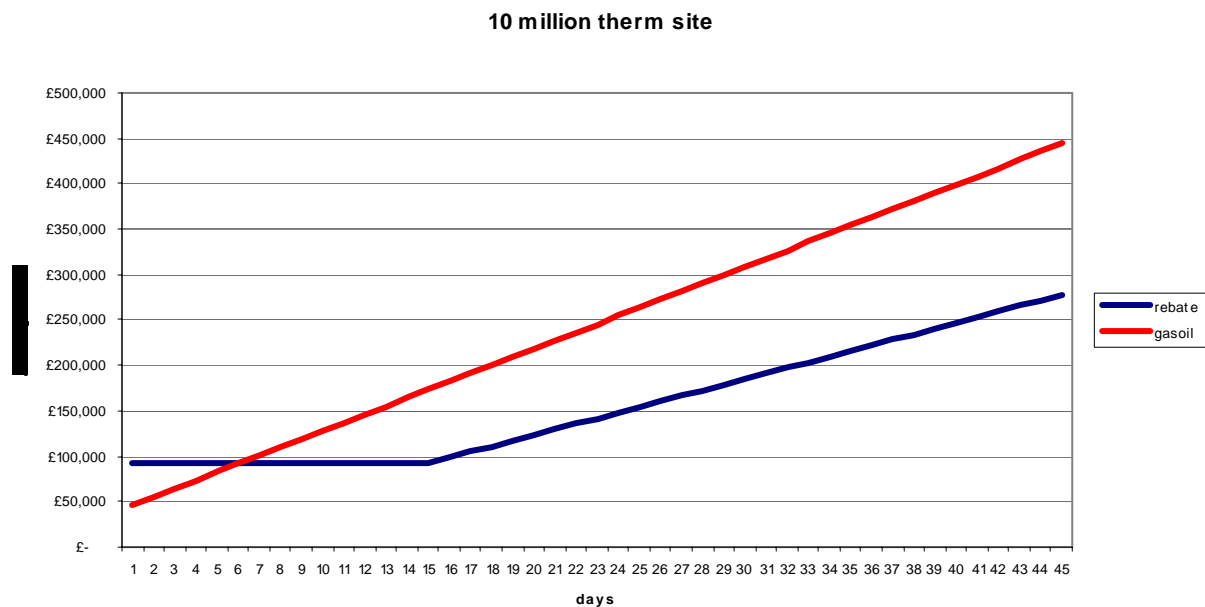
This means that if all interruptible capacity was unnecessary, a medium sized domestic site would receive 47 pence per annum reduction in charge as a result.

Clearly some interruption is necessary, however the unintended out come of introducing this change could be little or no bids for interruption 3 years ahead which in turn could lead to high levels of investment being necessary by the GDNs. This could in fact increase the current charges to all firm sites.

I was surprised to see the sentence “As many customers have rarely, if ever, been interrupted, there is uncertainty about how some customers would respond to being interrupted”. The network code gives the Transporter the right to interrupt for testing purposes. If there is doubt and the Transporter is not using this facility I would argue that they are failing in their licence obligation and thereby Ofgem is failing to enforce this obligation.

The consultation also discusses the customers’ ability to move between firm and interruptible contract annually. This of course is true when moving from firm to interruptible but not so if a site wishes to move in the opposite direction. However the evidence is that this is not happening and that there is a gradual movement away from interruptible contracts. Some 3 years ago the total DN interruptible sites was 1542 (data provided by Transco) and earlier this year this had dropped to 1484 (data provided by NG, NGN, W&W an Scotia).

In order to understand this drift to firm I have produced the following graph:



Although the values are for a 10 million-therm site the graph is very similar for smaller volumes. The graph shows that if a site were to be interrupted more than 6 days per annum they would lose by being interruptible.

Bearing in mind that the net benefit to being interruptible is less than 0.5 p/therm and year ahead gas prices is over 60 p/therm, it is surprising that so many sites are still prepared to take the risk of being interruptible. This is even more surprising when you consider that these sites carry the additional risk of being the first to be called off the system in a gas supply emergency.

Moving on to the model developed so far by GDNs. I have examined the benefit offered in the following table contained in the presentation by the GDNs to the Enduring Offtake Working Group. Assuming that 100% represents the total of NTS and LDZ capacity charge the only points on the matrix of benefit to a consumer would be location D for 5 and 10 days. If however 100% represents only the LDZ capacity charge there are no points on the matrix that would be of benefit to a consumer.

For Illustration

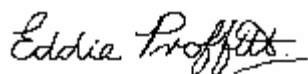
Location	5 days	10 days	15 days	25 days	30 days	45 days	Comment
A	5%	10%	15%	20%	25%	30%	
B	25%	35%	40%	50%	60%	75%	
C	50%	70%	80%	100%	120%	150%	
D	100%	140%	160%	200%	240%	300%	

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The issue of the transfer of interruptible rights and obligations between shippers appears to have been accepted as a given in the consultation. To my knowledge shippers are loath to bid 3 years ahead when the supply contract with the consumer in the main is for only one year.

One issue that has been totally ignored by the consultation is that of investment in standby equipment made by existing interruptible sites. If a change to the regime leads to these sites not being required this would lead to stranded assets, which in turn could lead to a legal challenge to Ofgem's decision.

Yours truly,



Eddie Proffitt
Gas Group Chairman