TOTAL GAS & POWER LIMITED

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Dear Lewis,

Reform of Interruption arrangements on gas distribution networks – Total Gas and Power Ltd (TGP) Response

TGP welcomes the opportunity to comment further on the proposed reform of interruption arrangements. Notwithstanding our comments below, we continue to oppose the implementation of Modification 0090 and believe that incremental change is a more appropriate mechanism to solve the deficiencies within the current regime.

CHAPTER: Three

Question 1: Which of the options proposed by Ofgem for setting a one year incentive for the GDNs purchases of interruption and NTS offtake capacity do respondents support and why?

It is our belief that Ofgem wishes that any proposed reforms should allow Distribution Network Operators (DNOs) to satisfy operational system requirements through procurement of interruption from customers, system reinforcement and NTS offtake capacity bookings. In allowing the DNOs to make such decisions it is hoped that optimal system management will be achieved. In order for these benefits to be realised DNOs will also need to be fully exposed to the costs of system management.

All three options outlined do place some form of incentive on DNOs. We agree with Ofgem however that once the limits in Options 1 & 3 are met, there will be no incentive to minimise, and furthermore there will be a perverse incentive to incur costs from interruption procurement to avoid costs in other incentive areas. In contrast, Option 2 does not weaken this incentive by limiting DN exposure, and as we agree with Ofgem that this will give the strongest incentives to DNOs, we support the setting of an RPI-X allowance

We note the comment that it will be difficult to set the allowance appropriately, but this is a common issue to all three options, and information gathered from this interim incentive period should help inform future decisions on incentives for the main price control.

Question 2: What are respondents views on the factors that should determine the level at which the interruptions and NTS exit capacity incentives are set?

At present all DNOs are required to operate and maintain DNs to satisfy their 1 in 20 peak demand obligation. We agree with Ofgem that the DNOs should be incentivised to achieve this through the most efficient utilisation of interruption, NTS capacity, diurnal storage and

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system reinforcement. This does not necessitate the changes proposed to exit reform and the interruption arrangements however; suitable incentives can be constructed around the current regime, as has been done historically.

Question 3: Do respondents agree with Ofgem's proposal to set a one year incentive for GDN's purchases of interruption and NTS offtake capacity from October 2010 and longer term incentives as part of the GDPCR?

If Modification 0090 were to be approved, it would seem appropriate that a separate, interim price control is implemented to enable alignment of the GDPCR and the revised interruption process. In order to minimize the risk of inefficient trade-offs being undertaken, some form of commonality between the two sets of incentives should be attempted.

Additional comments on Interruption Incentives for the Transitional Offtake period.

With regard to the Transitional Arrangements, it would seem appropriate that any incentive regime should minimize the costs that are incurred by DNs. The current regime does not allow this as DNs do not incur any costs from the first 15 days of interruption, and hence did not incur any costs in 2005/2006. We therefore support the proposal that DNs should be fully exposed to the calling of interruption and that the target should be set to zero.

Additional comments on Network Sensitive Loads

As we have stated in our response to Modification 0090, the sites currently designated as Network Sensitive Loads will have considerable market power in setting the level of interruption payments. This is a critical issue that has been not resolved, and may prove to be a serious issue if a fully market based interruption regime is implemented.

We note Ofgem’s point that it may its powers under the 1998 competition act to prevent the abuse of a dominant market position by NSLs. Except as a last resort, this would be a disproportionate response, and considering the lack of historical system investment on the network that has necessitated NSL status, it may be difficult to prove market abuse.

Whilst we welcome Ofgem’s attempt to solve this problem through diagloue with the DNOs, no reform to the current regime should be progressed until it is satisfactorily resolved.

CHAPTER: Four

Question 1: Do interested parties agree with the estimate of the costs of implementing GDN interruptions reform? Interested parties are requested to provide information about any costs they expect to incur to implement interruptions reform.

Total Gas & Power Limited is unable to provide detailed costs on the changes that will be required by Shippers to participate within the new interruptible markets. We do anticipate however that the costs of procuring interruptible status will be significantly higher compared to the current baseline, owing to the increased complexity. This will erode the benefits derived from interruptible status, which consumer representatives have already indicated as limited.

Question 2: Do interested parties agree that Ofgem has identified the appropriate benefits of reform of the GDN interruption arrangements?

We are not convinced that the benefits stated by Ofgem will be achieved by the proposed interruption reforms.

We agree that if significant numbers of consumers bid for interruptible status, then the DNOs will receive credible investment signals and will be able to make efficient trade-offs between system reinforcement and interruption procurement. This benefit depends on one key assumption; there will be a dynamic interruptible market with significant levels of participation. As has also been stated by consumer groups, we are not convinced that this will occur and a dearth of interruptible capacity will require the DNOs to reinforce the network in some locations, not realising the economic benefits desired.

Similarly, though the removal of historic interruptible sites will remove consumers who do not fully appreciate the implications of such a status there will also be a reduction in the number of customers wishing to be interruptible. This reduction will reduce the interruptible safety margin (that has to date been sufficient in dealing with all system constraints), and may hasten a stage 2 emergency compared to the current regime. It is not certain therefore that this modification will improve security of supply.

The modification does create a market in interruptible products and in that regard will bring some flexibility in the type of interruptible status that can be elected by a site. Allowing NSLs to participate freely in this market however, may give rise to distortions in market operation and hence mitigate any benefits from the market's operation. It is our view that increased flexibility of the interruptible product can be achieved through incremental reform of the current regime, as opposed to the significant changes proposed.

With regard to the benefits to the electricity market and the economy, as we have stated above, benefits from lower interruption costs will only be realised if sufficient numbers of consumer participate in the market. This is by no means certain, and if there is a deficit of customer participation then higher costs will be incurred from significant additional system investment.

We agree with Ofgem that any regime that is consistently applied to all DNs will generate some benefits from comparative regulation.

Question 3: Do interested parties agree with Ofgem's estimate of the range of potential quantitative benefits of GDN interruptions reform?

Without access to the supporting information, we are unable to comment on the validity of the range of the proposed benefits.

CHAPTER: Five

Question 1: Do interested parties have any views about the timing of the introduction of the new arrangements for the customer charge?

Any change to the customer charge should be implemented with a view to minimizing cost variability to allow certainty of pricing. We therefore agree with an April 1 2007 implementation date.

Question 2: Do the benefits outweigh the costs associated with changing the timing of

changes to gas distribution charges from October to April each year to align it with changes in allowed revenue?

As we stated in our response to the consultation on the structure of the Gas Distribution Charges, we disagree with the proposed changes in weighting as they are unlikely to influence customer behaviour, and that a greater degree of industry consultation should be undertaken to ensure the most efficient outcome is achieved.

With this in mind, our overriding concern is that any change to the customer charge should be implemented with a view to minimizing cost variability to allow certainty of pricing. We therefore support a synchronization of the setting of system charges and the level of allowed revenue.

Please do not hesitate to contact me in response to any of the above comments.

Yours Sincerely

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