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Dear Mark,

National Grid Gas - Offtake Arrangements Final Impact Assessment on modification proposals – Consultation Document (23/07)

I am writing further to the above consultation document that was published on 7 February 2007 on behalf of Wales & West Utilities (WWU). Please find attached our detailed response.

Our major concern in relation to the impact assessment is within Para 3.77 which states that the costs of enduring Offtake were associated with network sales and should be borne by GT shareholders. We strongly disagree with statement. Ofgem have never suggested this before and in fact the November 2004 Final Impact Assessment says "DN exit reform . . . falls outside the scope of DN sales". Likewise this was not referred to in the November 2006 Impact Assessment and to suggest otherwise undermines the whole cost benefit analysis. The costs of exit reform cannot be assumed to be part of sales costs.

Please feel free to contact me if you would like a discussion about any of the points raised in our response or you require any further information.

Yours sincerely,

S. Williams

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Registered in England and Wales: No. 5046791

NATIONAL GRID GAS – OFFTAKE ARRANGEMENTS
FINAL IMPACT ASSESMENT ON MODIFICATION PROPOSALS

General Comments

WWU has been an active participant in the Enduring Offtake Working Group and the UNC Workstream.

Payment flows

The introduction of enduring payment flows will have both resource and financial implications for WWU. There will be a cost associated with the provision of credit cover by WWU for the Transmission Exit Charges (TEC) and any associated overrun charges. There will also be costs incurred by the Shippers in providing appropriate credit cover to each Distribution Transporter. As unsecured credit is limited to a maximum of 2% RAV, the impact on a large Shipper operating within a small Distribution Network may be disproportionate when compared to the current regime. These costs have not been included in any impact assessment as the changes to the Payment Flow mechanism are seen as incidental to the regime change.

Capacity Commitment

The financial impacts, in terms of credit cover, of the introduction of a take or pay type regime for capacity reservations with a potential 4 year commitment has not yet been assessed. This is because the Transmission Charging Methodology and associated models are currently subject to industry wide consultation.

Chapter 3 – Quantitative analysis of benefits and costs

Non-discriminatory allocation of capacity products

Paragraph 3.16 alludes to the disallowance of expenditure in the TPCR. Whilst this does demonstrate Ofgem's commitment to the user commitment model, the sums excluded (£19m compared to £3.4bn) do not appear significant when they are translated into customer charges.

Reduced Incidence of ARCAs

Table 3.5 - this value appears in the quantitative section of the costs. It is not clear how the figure of £9.7m has been reached – what number of ARCAs do Ofgem predict would occur, what percentage would go to determination and what is the cost per determination?

Costs to gas transporters and their Agency

Paragraph 3.77 says that costs of enduring offtake were effectively costs associated with GDN sales and should be borne by GT shareholders. The paragraph states that the policy intent was stated clearly at the time (in the Final Impact Assessment of sale dated November 2004 Ref 255/04) and that the implementation costs of offtake reform would have been priced into GDN sale prices. There are a number of comments we would wish to make:

- Paragraph 9.61 of the November 2004 Final Impact Assessment says “DN exit reform . . . falls outside the scope of DN sales”. Thus costs of exit reform clearly cannot be assumed to be part of sales costs.
- The November Impact Assessment does not suggest that the costs of exit reform are to be borne by transporters and to suggest otherwise risks undermining the whole cost benefit analysis. Impact assessments should never exclude any costs

borne to achieve the benefits. As we pointed out in our response to the June 2006 draft offtake impact assessment it would not be acceptable to WWU to bear the costs of exit reform. These costs will be incurred to ensure that customers achieve the benefits outlined and hence should legitimately be passed through to customers.

- The November Impact Assessment was published two months after the price had been agreed between purchasers and Transco and hence its contents could not have been taken account of in the sales transaction as suggested in paragraph 3.77.

It might be possible to argue that the National Grid NTS element of the costs should be born by National Grid. However this still leaves a large element of costs inappropriately excluded from the cost benefit analysis.

Chapter 4 – Qualitative analysis of benefits and costs

Efficient network development and system operation

4.5 This is a quantitative item – costs and benefits should be calculated or extrapolated and included in the numbers.

Appropriate allocation of risk

WWU is concerned that the overall effect of the proposals appears to allocate all risk associated with both developing the Network (via the customer commitment principle) and operating the Network (via the payment flow model) to the Distribution Network operators. This does not align with Ofgem’s aim of ensuring that risk is allocated appropriately to market participants.

- Paragraph 4.12 states that the risk is transferred to NTS users and shippers. In reality the risk is transferred to Users who in the majority of cases will actually be the DNs. The DNs will consequently be exposed the risk that Ofgem felt the NTS should be protected from.
- It is anticipated that this will be revisited during GDPCR discussions about the rate of return and incentives.
- Paragraph 4.14 revisits the ARCA argument that is outlined in Chapter 3 and we feel is unproven.

Simplicity and Transparency

There are still a number of elements of the regime which have not been published or approved by the relevant parties.

- NG Charging methodology – Ofgem have stated they will be carrying out an impact assessment
- GDPCR (5 year) are not finalised
- DN Incentives have not been published
- DN Interruption Impact Assessment has not been published

Preventing undue discrimination

Although there is more transparency and hence less opportunity for discrimination by NG NTS between the retained and independent DNs, there is still potential for the risk profile of the iDNs to be different to that of the RDNs owing to NG’s ownership of both the NTS and the RDNs.