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Dear Joanna,

Capacity Outputs Incentive for GDPCR - October Update Consultation

I am writing in response to the above consultation and attach our detailed response. If you have any queries or require further clarification please contact Steven J Edwards, Head of Income & Pricing on 029 2027 8836 or Steven.J.Edwards@wwutilities.co.uk.

Yours sincerely,

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24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
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WWU's Response to the Capacity Outputs Incentive for GDPCR – October Update Consultation

The Updated Proposals document dated 24 Sept this year was the first indication that Networks had of the scope, form and structure of the proposed Capacity Outputs Incentive to be in place from Oct 2011. WWU responded to the Updated Proposals and highlighted that there were still many significant areas of the incentive to be developed and resolved.

The October Update provides some further thinking and some proposed values for incentives. Whilst we have held some useful and constructive discussions with Ofgem it is still our view, that the Updated Proposals and the October Update are still at a high level and further work is still needed to move this thinking to a workable regime. We would welcome a decision to take the development of the incentive outside of the GDPCR timescales to allow adequate time and discussion to ensure a robust and workable solution.

We would welcome and participate in any working groups set up to further develop the incentive. We are concerned that the current incomplete information on this incentive could result in uneconomic decisions for the industry. Decisions that we will make starting from June 2008 will have large, long term financial implications for the Gas Industry and we want to ensure that we make the best decisions for the Network and the Industry.

Our concerns are that many variables that impact the trade off decisions outlined are not yet defined. Some examples of development still required are:

1. The treatment of Capital Spend to reinforce the network.

Clarity regarding the application of IQI or the level and application of a re-opener is still the subject of consultation.

2. The future cost of NTS capacity.

We are concerned that with unknown future prices for NTS Flat Capacity, the trade offs that Ofgem would like GDNs to undertake are not possible.

3. The Capacity Output Incentive value and Flat Capacity Targets.

We seek clarification of when the interruptions incentive would change as a result of an economic reinforcement decision. If the targets are reduced within a short period of the economic decision, there may well be no incentive benefit to the GDN for economic behaviour.

4. The Flat Capacity Target increase excluding NSL moving to firm.

We would argue that the Flat Capacity Target should increase to also take into account the move of NSLs to Firm. The decision criteria are very similar for NSLs and non NSLs and we believe that Flat Capacity costs could increase as a result of reinforcement linked to either.

5. The arithmetical definition of the Capacity Output Incentive.

We have not seen any proposals in the licence drafting on this incentive. This is required to understand the Ofgem interpretation of the impact on Allowed Revenue. For example, how will the cash cost of Interruptions Payments be treated?

6. Income adjusting events :

From 2011 it is understood that GDNs will actually purchase Exit Capacity from NTS depending on the form of Offtake Reform. We would prefer an actual figure for an IAE as opposed to a % of Allowed Revenue. This removes any changes to the levels of IAEs as a result of any changes in Allowed Revenue levels.

7. Payment flows between GDNs, NTS and Shippers for Exit Capacity.

This is yet to be defined and we would welcome some early working groups on this to establish the scope, framework and application.