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9 October 2009

Dear Jenny,

Code Governance Review: Governance of charging methodologies: Initial proposals

In response to this consultation we summarise our main points below and provide answers to the specific questions within the consultation document as Appendix 1.

Governance and Cost reflectivity

You will be aware that gas distribution network operators have developed the “Distribution Charging Methodology Forum” with the specific aim of ensuring that charging methodologies are more understandable and accessible to users. We believe this governance approach provides the appropriate accessibility and influence for users, avoiding undesired consequences of increased uncertainty, administration and regulatory cost which the consultation acknowledges options 2, 3 and 4 may bring.

The network operator has a Licence obligation to ensure that charges are cost reflective. Network operators have a very good understanding of their own cost bases and cost drivers and accordingly are aware of the costs of undertaking certain activities. The network operator is in a unique position to impartially determine appropriate charging to reflect underlying cost.

Stability and predictability

A key message from the Charging Methodology Forum is that users value stable, predictable and transparent charges. Options 2, 3 and 4 will, in our view, introduce uncertainty for charges by user category.

Qualitative and Quantitative Analysis

We believe that the cost benefit analysis provided within the consultation is subjective and inconclusive and in particular makes an inappropriate assumption that reductions in capex expenditure will follow changes in charging methodology.

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

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro



If you have any queries in relation to this response please contact me as below.

Yours sincerely,

A handwritten signature in black ink, appearing to read "S. Edwards", with a long horizontal flourish extending to the right.

Steve Edwards
Head of Regulation and Commercial
Tel: 029 2027 8836
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Appendix 1

CHAPTER: THREE – INITIAL QUALITATIVE AND QUANTITATIVE ANALYSIS OF IMPACTS

Question 1: Do you agree with the output from the assumptions made within the quantitative analysis undertaken?

The analysis does not specify how the savings will be achieved other than to make the assumption that the network users will target their investment in areas which impose the lowest cost to the network owners, resulting in lower charges to them and reduced capital expenditure to the network owners.

Our charges are based on the network as a whole. We do not produce charges for individual locations within the network. Locational charging cannot currently be achieved as we do not collect costs that align to this methodology.

We therefore do not see how the analysis and conclusions drawn regarding implementation of options 2, 3 or 4 are applicable to WWU's circumstances.

Question 2: Are there any factors that you believe should have been considered in this analysis?

Giving users the ability to propose changes to the charging methodologies of network operators that may potentially, whilst not the aim of the consultation document, result in charges that are less cost reflective than currently used introduces additional financial risk to networks not currently reflected in network WACC. If mechanisms were introduced, there should be safeguards to prevent methodologies that are not objectively cost reflective.

CHAPTER: FOUR – FURTHER PROPOSALS

Question 1: Which governance Option do you consider is the most appropriate for charging methodologies?

We strongly recommend that for gas distribution we retain the status quo. For gas distribution there has been no evidence provided of how the current regime is detrimental to Users or customers or any quantitative or qualitative evidence to show benefits of the other options.

Question 2: Do you agree that we should initially focus on gas and electricity transmission charges, with gas distribution potentially to follow as a second phase?

Each energy sector has evolved from a different start point and has different challenges. We do not believe any change from the status quo is supported within gas distribution. We acknowledge the different challenges in the different sectors and therefore understand and agree the focus in the other sectors.

Question 3: Do you agree that annual/biannual change and implementation windows are the most appropriate mitigation measures to progress going forward for all the options?

Any move from the status quo could potentially lead to a flurry of modifications which would place a significant burden on the networks and the central agency. In view of the time taken to consult with our customers, and the possible requirement to carry out impact assessments, we would prefer an annual change. The feedback we have received from users indicates a preference for annual changes to charges, where possible, to reduce volatility to them and the end consumers.

We stress again, that we believe the arrangements within gas distribution provide appropriate arrangements for participants to discuss with us any issues and concerns they have regarding any methodology changes. We encourage this debate and we make every effort to provide them with the information they require to make informed decisions.

Question 4: Do you consider a 3 or 4 month window to be sufficient time to consider modification proposals? Please indicate your preference for either 3 or 4 months.

Our preference would be for a 3 month window although, as stated earlier, we feel we have sufficient processes in place to ensure that the status quo is the most efficient way of managing methodology changes.

Question 5: Do you agree with our approach to defining "affected parties" who would be entitled to raise modification proposals?

We agree that those parties affected by the charging methodologies should have the right to challenge and debate with us their concerns regarding any issues arising from those methodology changes. As stated earlier believe we have the appropriate forums and processes in place to achieve this. We are not supportive of "affected parties" raising modification proposals predominantly because those "affected parties", by their very nature, will not be impartial bystanders and may well pursue measures which promote their causes to the disadvantage of other users. The network owners are impartial to the way in which charges are levied. We simply have allowed income which has to be recovered in the most cost reflective manner in accordance with the requirements laid down by Ofgem.