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Dear Peter,

Ofgem Initial Consultation on Gas Security of Supply Significant Code Review (SCR)

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major Shippers in the UK. We cover $\frac{1}{6}$ th of the UK land mass and deliver to over 2.4 million supply points. WWU is one of only two Licence Operators that focus solely on Gas Distribution in the UK.

We welcome the opportunity to comment on this Initial Consultation and have had representation at both the SCR opening and closing seminars. We agree with Ofgem's assertion that security of supply may not be fully valued and that the SCR should be focussed on security of supply and developing arrangements to minimise the risk of entering into a Gas Deficit Emergency. We therefore do not envisage that the SCR, based upon the current scope, will impact on WWU as a GDN.

As a GDN we act as the system operator of the WWU network during a Gas Deficit Emergency and take action as deemed to be necessary by the National Emergency Coordinator (NEC). As National Grid Gas (NGG), acting as the NEC, have highlighted throughout the review, the decisions made by the NEC and subsequently WWU are made purely from a safety and operational point of view, we play no commercial role in the emergency arrangements.

Based on our role within the emergency arrangements we have not felt it appropriate to answer the questions within the Initial Consultation document, however, we would like to provide the following comments and hope to continue supporting the SCR process as necessary over the coming months. Ofgem have recognised the need to interact closely with networks and we would be happy to discuss any aspect of this SCR if this would be of benefit.

The main focus of the SCR relates to ensuring that sufficient gas can enter the Total System to negate the NEC declaring a Gas Deficit Emergency. The options presented as part of the Initial Consultation relate to Shipper and NGG commercial activity prior to a declared emergency and the arrangements required after the event (e.g. post emergency claims). We would have concerns if any option were to be considered further that would change the

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

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actions taken by the NEC in such a way to diminish the role of the NEC or to commercialise any decisions that they need to take once an emergency has been declared. Any such changes would have Safety Case implications for the NEC and could potentially impact upon the Safety Cases of GDNs and independent Gas Transporters (iGTs).

During the seminars and workshops there have been several references made to the following areas that we would like to make specific comments on:

- 1) DN Interruption Reform;
- 2) Application of Value of Lost Load (VoLL) within a Local Gas Supply Emergencies (LGSE) and interruption compensation;
- 3) Emergency Interruption contracts; and
- 4) Firm load allowances during an emergency

DN Interruption Reform

There have been ongoing discussions within the industry since the implementation of Modification Proposal 0090 in April 2008 and all GDNs have worked with the HS&E and Shippers to ensure there has been no detrimental impact to our emergency procedures. GDNs will continue to affect the changes brought about by Modification Proposal 0090 later this year and take assurance from the Ofgem closing seminar slides that the merits of DN Interruption Reform are not being questioned and that the focus remains on commodity based interruption (not capacity based).

Application of VoLL within a LGSE

Large industrial & commercial consumers and consumer representatives have consistently made the point, quite understandably, that they do not necessarily care why they have been interrupted and should receive compensation for any interruption of their gas supply.

We do not believe that the proposed VoLL arrangements would work within a LGSE as the emergency is unlikely to be due to a shortage of gas and instead be due a transportation constraint (e.g. such as damage to a network by a 3rd party). In these instances getting more gas on to the Total System would be a futile exercise and a GDN, acting under their emergency procedures, would take the necessary steps to ensure safe operation of the network (firm interruption, network isolation etc.). Under these circumstances it would seem inappropriate for the industry to be faced with payments of VoLL to affected customers.

The debate around whether Firm customers should receive compensation for outages has also been subject to much debate over the last few years. It was a key consideration during the DN Interruption Reform discussions but was not taken forward by any UNC participant. As we mentioned above, the decisions taken by a Transporter during an emergency are not commercial ones as it is the safety and integrity of the network that is paramount.

In situations where through unplanned activities customers (domestic and industrial & commercial) experience a loss of gas for more than 24 hours there are existing compensation arrangements in place. For domestic and small non-domestic customers (<73,200kWh per annum) these arrangements are set out in the Gas (Standards of Performance) Regulations 2008. The regulations limit any individual customer payment to £1,000 for any gas outage greater than 24 hours and also detail a number of exemptions (mostly to protect the Transporters from making payments for events out of their control). There is a specific exemption covering situations where more than 30,000 customers are affected.

Similar arrangements exist within the UNC for compensation for larger industrial & commercial customers (>73,200kWh per annum). Rather than standard daily payments, the compensation increases proportionally with the capacity held at the individual supply point. The UNC places aggregate annual limits on the amount of such compensation and also has exemptions for instances where force majeure has been declared.

It would therefore seem inappropriate to extend any aspect of the SCR to LGSE, and compensation payments for firm customers, without giving due consideration to these arrangements. As mentioned above, we acknowledge and welcome the fact that Ofgem currently views these arrangements as out of scope of the SCR.

Emergency Interruption contracts

The use of emergency interruption contracts has been referred to as a potential way of reducing demand on the network prior to a Gas Deficit Emergency as it would go some way to mitigate the need to get additional gas in to the Total System. Whilst we acknowledge this as a potential option we do not see that it offers any clear benefit over the proposed VoLL incentive and compensation arrangements. Customers would still require payment for such a service and we would expect such compensation to be similar to, if not the same as, the customers VoLL.

If such contracts were deemed to be an option then the contractual arrangements would have to be between the customer and the relevant Supplier/Shipper to ensure that the necessary trade-offs with VoLL and the cost of getting additional supplies on to the system are coordinated and effective.

Firm load allowances during an emergency

Large industrial customers have suggested during the SCR process that alternative arrangements could be developed that would allow sites to retain a predetermined proportion of their gas supply during an emergency to allow for key load processes to continue and/or for the orderly reduction of usage to protect against consequential damage to plant and equipment.

Similar discussions have taken place over the last couple of years with DECC as part of the conclusions to the Gas Priority User Consultation that was carried out by DTi / DBERR back in 2007. The concept of allowing a proportion of gas supply to remain at certain sites was seen as a variation of the current arrangements for sites with a Category C status where it has to be demonstrated that a total loss of supply would cause greater than £50m damage to plant and equipment.

We are not aware of any conclusions to this that warranted a change to the priority arrangements. If DECC wish to revisit the outputs from the DTi / DBERR consultation we would happily be part of any such discussions, however, we do not see this as currently being in scope of the SCR.

We hope that these comments are useful to Ofgem and the SCR process. We would welcome further discussions on this if Ofgem wish to engage with GDNs on any of the issues we have highlighted or any other aspect of the SCR and we look forward to participating and supporting the process over the next few months. If you wish to discuss any issues raised in this response then please contact either myself or Simon Trivella (simon.trivella@wwutilities.co.uk).

Yours sincerely



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