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Dear Hannah,

We welcome the opportunity to provide feedback on the Gas Transmission Business plan submission from National Grid Gas. As a Gas Distribution Network transporting gas to over 2.4m users in Wales and South West; and directly connected to the National Grid Gas Transmission system, we have a significant interest in the Gas Transmission submission. You should note that we have participated in their Stakeholder engagement events.

Our response is primarily focused on some key areas that could have impacts on our network, and subsequently customers in the Wales and South West region. Our response is not confidential.

Key feedback points

1. Future Energy mix – Gone Green Scenario.

National Grid Transmission state they have based their investment plans on the “Gone Green Scenario” and that there is “general industry agreement” that this scenario represents the likely pathway to the future energy mix. We do not agree with this statement. We recently attended their informative “Transporting British Energy Event” in London and whilst we acknowledge that “Gone Green” is a potential, scenario, our view is that there is not broad industry agreement to use this scenario as a base case.

The reality is that renewables alone will not provide sufficient energy, and full electrification comes with a huge price tag for consumers. As the lowest carbon producing fossil fuel, gas will continue to provide an important part of the energy mix for many years to come. An independent report produced for the industry late

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

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

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last year identified that the Government 2050 carbon reduction targets could be achieved with gas continuing to play a key part in the energy mix – and importantly, could save UK consumers some £700 billion compared to full electrification - representing a £20,000 saving per household across the UK. There are three key criteria to be considered in relation to energy going forward – security of supply, consumer cost and environmental impact. We need to ensure that the focus is not just on the last one at the expense of the first two and in WWU, we are acutely aware of the increasing pressure of energy costs on consumers and the subsequent increase in fuel poverty.. We therefore agree with National Grid Transmission that there will be an ongoing and significant role for gas in space heating, especially at peak due to the intermittency of renewables.

2. Planning assumption – The requirement to plan for “1 in 20 scenarios”.

All regulated gas transporters have this key obligation and we support its use. However as stated by Grid Transmission, we also acknowledge that there other factors that we should take into account when planning for capacity and the safety and reliability of the network. We will engage with National Grid Transmission directly to further understand the detail behind their points. We will include our views within our business plan submission.

3. The development of Commercial Arrangements.

National Grid signals their intent to revisit the existing commercial arrangements between industry parties. As a co-signatory to the Uniform Network Code and recipient of products and services from National Grid Transmission Gas we will be directly impacted by the development of any change to the current commercial arrangements. Our forthcoming business plan submission will be based on current commercial arrangements. Any change is unlikely to be seen by the consumer but change will bring uncertainty for the networks. It will be important to ensure there are adjustment mechanisms in both the Transmission and Distribution reviews to address any impacts. We agree with National Grid Gas Transmission that there are areas where the commercial arrangements can and should be developed, but we must be fully engaged in this process. We will play our full part in any future discussions with the clear aim to ensure commercial arrangements are appropriate for all stakeholders.

4. The Exit Capacity reforms from 2012.

You will be aware from October 2012, the current Exit Capacity charges levied to shippers, and hence consumers from National Grid Gas Transmission will cease and the Gas Distribution Networks will levy this charge from this date. Under this new arrangement, we will be required to pay National Grid Transmission. This payment to Grid will be the single largest annual cost to Wales & West Utilities and account for up to 10% of our annual allowed revenue. It is correct that Grid Transmission are allowed to collect efficiently incurred costs and it is appropriate that Distribution Networks are protected against the NTS charges within their Licence with a pass through allowance. We cannot influence the level charge implemented by National Grid Transmission. Evidence to date suggests that the charges from National Grid Transmission can vary significantly. This volatility will cause a significant issue for Distribution Networks, Shippers and consumers into the future. We must aim for stability for consumers.

5. Transmission and Distribution interaction to ensure efficient investment for network users.

We have been working with Ofgem, the other Gas Distribution Networks and National Grid Gas Transmission to explore the options for more efficient overall costs to consumers. The National Grid Gas Transmission business plan submission has acknowledged this work and their plan also highlights the difficulty they have in attributing their investments to specific network users. We will continue to work with all parties in this area but unless we can get clarity from National Grid Transmission on the specific impact of our Distribution Network on their investments we will not be able to reflect alternatives within our Business Plan submission. We fully acknowledge the many factors that impact the Transmission investments.

6. Uncertainty.

We support many of the arguments made by National Grid Transmission that highlight the increasing risks and uncertainties facing networks. These changes need to be reflected in financing costs of networks. Whilst Gas Distribution will face additional uncertainties, such as the impact of Smart Metering, there are common risks faced by Transmission and Distribution within the RIIO framework. Specifically, the longer price control period of 8 years and the proposals to lengthen the time period over which networks will receive cash flow returns add significant risks to Networks.



We hope these comments are helpful and provide useful feedback for Ofgem and National Grid Gas Transmission. We will directly engage National Grid Transmission on our specific key points. The National Grid Transmission plan will impact our business and we will take account of their submission within our forthcoming business plan. If you would like to follow up any point in this response, please don't hesitate to contact me.

Yours Sincerely

Steve Edwards
Head of Regulation and Commercial