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31st January 2011

Dear Ljuban,

Ofgem Open letter re classification of premises for purposes of Standard Licence Conditions of the gas supply licence

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.

Our responses to your two questions are given below.

- 1) How should the definitions of a Domestic Customer and / or Domestic Premises be amended within the SLCs to clarify the position than in certain circumstance, a supply of gas to a legal entity acting on behalf of individual residents is a supply to Domestic Premises and to a Domestic Customer?**

We recognise that the situation described does occur and it is desirable that customers who are in effect domestic customers are treated as such and Suppliers do not treat them as non-domestic customers. However we believe that changing the definition of domestic customer is not the appropriate way forward for the following reasons:

- The definition of domestic premises and customers is used throughout the industry and appears in other legislation, regulations and licences (for example. Shipper and Transporter licences). It is important that all definitions of domestic customer and domestic premises used throughout the industry are consistent to avoid, for instance, Transporters and Suppliers treating the same supply point differently. Inconsistencies could also pose problems for xoserve¹ in administrating supply points. The open letter does not consider the number of consequential changes to be considered nor the amount of work that is likely to be required to address them. This work may, in addition,

¹ xoserve are the Transporters Agent responsible for the centralised Supply Point Register and for Supply Point Administration (SPA) processes.

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

identify further issues that would need to be addressed. There is currently a live UNC Modification Proposal² that is looking to mandate the onward transmission and maintenance of the status of all supply points (domestic or I&C). This will be based on the definitions used within the Supplier licence. The Modification Proposal also contains additional analysis of where else this definition is used and may help to quantify the impact of any changes introduced through inconsistent definitions.

- The desired policy aims could probably be achieved by Suppliers voluntarily agreeing to treat these cases as domestic customers for the purposes of Supplier Licence Conditions 26-32. The work required to implement this solution is likely to be much less than that required if the licence conditions are amended and is proportionate to the overall benefit.
- With the proposed mandatory roll out of Smart meters to all domestic customers there should also be an industry desire to minimise the occurrence of multiple domestic customers being represented by an individual through a single meter. The benefits of Smart metering may not be achievable in such situations and therefore should be discouraged. For all new connections this could be achieved by having individual meters for each domestic customer. For existing arrangements there may be the opportunity to install further meters (that is. creating individual meter points) or where this is not possible, for the existing voluntary “goodwill!” arrangements to be continued by Suppliers and Transporters.

The voluntary solution proposed already has successful precedents. Transporters have voluntarily applied the standards of performance in the Gas (Standards of Performance) Regulations to parties that are not covered by the regulations but where it is reasonable that they should receive the same standards. Examples include where the connection application is made by a relation of the customer who is acting at the request of the customer for example someone acting for an elderly parent. This has worked very well since 2005 and there is no reason why it could not work for suppliers in the case of domestic customers.

² Further information on Modification Proposal 0353 “*Population and Maintenance of the Market Sector Code within the Supply Point Register*” can be found at www.gasgovernance.co.uk/0353

2) How should the obligations placed on Suppliers in SLC 22-32 change, if at all, where a supply of gas to a legal entity acting on behalf of a number of individual residents can, in certain circumstances, be a supply to Domestic Premises and to a Domestic Customer?

As stated above we believe the policy objectives can be achieved by a voluntary scheme and therefore changes to licence conditions should not be considered at this stage. In the longer term, such arrangements should be discouraged and could be tackled by licence changes in the future (if necessary).

Yours sincerely,



Steve Edwards
Head of Commercial and Regulation
Wales & West Utilities

Appendix

Standard Condition 1 – Definitions and Interpretation

The additional definitions are appropriate.

Standard Condition 4B – Connection Charging Methodology

We do not believe that the Gas Directive requires this condition to be amended. A comment on the draft amendments to paragraph 9(d) states that the amendment is required to implement part of Article 32 of the Gas Directive.

The Articles need to be read in the light of the recitals.

Recital 23 says "Further measures should be taken to ensure transparent and non-discriminatory tariffs **for access to transport**" ;

and Recital 25 starts " Non discriminatory access to the distribution network **determines downstream access** to customers at retail level

In our view this clearly relates to **use** of the transportation system by shippers **not** to extensions to the system. Therefore Article 32 does not relate to connections and no amendments to Standard Condition 4B are required.

Further the concept of a tariff for connections does not make sense, the commonly used meaning of "tariff" is a set of prices. Every connection has a different price because every connection is different, WWU does have some standard prices but this is for regulatory convenience only. The concept of tariffs for connections therefore does not make sense; however the concept of tariffs for use of the system is much more sensible and lends further support to the view that this refers to transportation tariffs. This means that the relevant licence conditions are Standard Special Conditions A4 and A5 and not Standard Condition 4B.

Notwithstanding the above overriding comment we have the following comments on the detailed drafting.

Paragraph 3 is a time restricted condition which has now past. The amendment to this paragraph would therefore have no impact unless the date was also amended to a date in the future.

The term "tariff" is used in the amendments to both paragraph 3 and 9 but is a term not currently defined in the Gas Distribution licence. A tariff is commonly taken to mean a set or list of prices. Every connection is uniquely priced and therefore it would not be possible to determine a tariff for each scenario described in paragraphs 3(a) to (f) of this condition.

The amendment to paragraph 9 refers to "system users" which is currently undefined in the Gas Distribution licence. It is unclear whether this term refers to shippers, suppliers or end consumers. The term "users" is a defined Uniform Network Code term with a specific meaning and therefore is likely to lead to confusion for those with knowledge of the UNC.

We would like to suggest that a more appropriate term would be “any person requiring a connection” which is currently used in paragraph 9(b) of this condition.

If paragraph 9(d) is to be implemented, we feel it should refer to “undue discrimination”. However we would question whether the non-discrimination obligation would already be covered by licence condition SSCA6 *Conduct of Transportation Business*.

Standard Special Condition A3 – Definitions and Interpretations

The additional definitions are appropriate.

Standard Special Condition A6 – Conduct of Transportation Business

The amendment refers to vertically-integrated undertakings which is not applicable to WWU.

Standard Special Condition A11 – Network Code and Uniform Network Code

This condition has already been significantly amended in 2010 as part of Ofgem’s Code Governance Review. This involved extensive consultation throughout the industry and a significant amount of work has been completed on the UNC Modification Proposals required to complete the output of this review and to enact the licence changes that come in to affect at the end of the year.

Shippers are counterparty to the UNC and should therefore be made fully aware of these amendments.

We would appreciate confirmation that the amendments to this condition have also been applied to the equivalent SSCA11 of the NTS licence.

The obligation to have due regard to the environment and energy efficiency is vague. We would require further guidance on how this would be measured in order to assess compliance with this obligation.

As in the amendment to SC4B, there is reference to the term “system user” this term should be defined to avoid confusion.

Standard Special Condition A26 – Provision of Information to the Authority

WWU have no further comments on this amendment.

Standard Special Condition A30 – Regulatory Accounts

WWU currently only produce consolidated accounts for other, non-gas activities at the year end to be included in the regulatory accounts. The systems currently in place would allow us to produce this information on demand if requested by Ofgem.

The additional paragraph 4B refers to paragraph 2 of this condition which only applies where multiple GDNs are held in common ownership. This is therefore not applicable to WWU but we agree that this approach would be appropriate for GDNs where paragraph 2 applies.

The amendment to paragraph 8(ii) has a significant impact for our auditors. It would not be possible for the auditors to report categorically that the obligation has been respected as that would imply sample sizes covering 100% of the population.

We therefore require clarification of how our auditors would report that the obligation has been “respected” before we can comment further on this amendment.

Standard Special Condition A33 – Restriction on Use of Certain Information and Independence of the Transportation Business

We suggest that paragraph 2A.1 would be more appropriate if it read, “The licensee shall take reasonable steps to prevent information”.

Additional paragraphs 10, 10A and 10B apply where the licensee is part of a vertically integrated undertaking and therefore not applicable to WWU.

Standard Special Condition A34 – Appointment of Compliance Officer

Following Direction, paragraphs 1 to 8 of this condition ceased to apply for WWU from 16th May 2008. The additional paragraphs 10 and 10A only apply where the licensee is part of a vertically integrated undertaking and therefore not applicable to WWU.

