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Dear Mick and Paul,

Wales & West Utilities is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.5 million supply points.

Wales & West Utilities (WWU) has read the response made to the mid period review, available at:

https://www.ofgem.gov.uk/publications-and-updates/consultation-potential-riio-t1-and-gd1-mid-period-review-0

We would like to make an observation on one of the matters raised by BG Group. In their response they state have cited perceived issues in the way that the NTS Exit Capacity Incentive is rewarding networks. The response however omits some fundamental points in the current system that we believe mitigate their perceived risks/issues.

Our requirement to meet our 1:20 obligation

As distribution networks, there is an obligation to provide gas in 1:20 scenario. In such a scenario it is unlikely that flexible daily bookings would be available, therefore all networks should be booking sufficient flat capacity to meet their 1:20 obligation. In WWUs published Long Term Development Statement the peak day requirements are clearly stated, together with our current flat capacity bookings, it can be seen that 'under booking' is not occurring:

	Stated 1:20 requirement	WWU current flat Capacity bookings
South West LDZ	252 gwh/day	254 gwh/day
Wales North LDZ	49 gwh /day	49 gwh/day
Wales South LDZ	213 gwh/day	213 gwh/day
TOTAL	514 gwh/day	516 gwh/day

Any deliberate under booking of flat capacity would therefore be identified by the Regulator and provide an indication that the licence requirement of achieving the 1:20 peak demand could not be guaranteed to be met. Similarly any significant decrease in 1:20 requirement would be identified by the Regulator on receipt of the Long Term Development Statement published annually.

We do not believe that Flexible capacity would provide certainty in the networks ability to operate in the 1:20 scenario, consequently expect to continue booking enduring flat capacity.

Inability to book at higher rated offtakes

The Exit Capacity incentive is calculated with reference to the entry point offtake volumes set out at Final Proposals therefore the ability to book now at higher offtake points in order to subsequently reduce them would not have any effect on the incentive earned.

Restrictions on the ability to change bookings in response to prices published

Distribution Networks are constrained by the rules set out in TPD Section B para 3.3.4 and 3.3.5. These set out that changes to enduring flat capacity bookings can only:

- take place during an applicable application window;
- that only one request for each exit point can be made in any one year; and lastly
- that, for any increase in Capacity, a request to reduce below this can then not be made for a period of three years.

Therefore, the ability for WWU to book Capacity at a more expensive offtake, then reduce this booking to benefit from the exit capacity incentive is restricted.

Further to this, networks are designed to utilise local offtakes to enter gas for use in that element of the system. Many of WWUs systems are not interconnected but indeed are discrete. Where connections are present they may allow for some gas between systems to flow, but not in sufficient quantities to reliably supply each system. The physical makeup of the system therefore dictates what supplies at individual offtakes are required to meet the perceived 1:20 demand within that element of the system. It is this requirement that drives booking behaviour and not the incentive potentially available.

Inability to forecast the price in year T

We agree with BG that it is very hard to forecast what movement will occur between NTS Exit Capacity forecasts and actual prices. System demand is known by NTS in December annually, the supply matching merit order then calculates what proportion of Entry or Storage is used to meet this demand. This will inform the actual price effective from the following October.

It is for this reason we welcome the engagement NTS are now making in revising their current tariff charges which we believe has the potential of improving this situation without the need to reopen this incentive.

Interrelation of Price Controls

A final point we would like to make is that BG refer only to the current price control not delivering value for the consumer. We believe this omits the point that at subsequent price controls, where networks have reduced their exit capacity requirements, earning incentives in the current control, are likely to receive lower allowances in future controls. Therefore there is an enduring benefit of incentivising networks to reduce the amount of gas off taken from the NTS, for example in innovating alternative solutions such as Hydrogen or assisting the development of a secure DN Entry regime.

In conclusion, we believe that the incentive in its current form is sufficient to incentivise overall decreases in requirement of NTS Exit Capacity, with sufficient safeguards in place to prevent any marginal gains that may be available through strategic booking of capacity (if indeed the system could safely deliver gas to all households in any revised allocation).

Any questions or clarifications would be welcomed.

Steve Edwards
Head of Regulation
Wales & West Utilities