



Mr Lewis Hodgart
Office of Gas & Electricity Markets
9 Millbank
London
SW1P 3GE

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ
T. 029 2027 8500
F. 0870 1450076
www.wwutilities.co.uk

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

16 July 2007

Dear Lewis,

Final proposals on extended transitional NTS Exit capacity and interruption incentive and formal licence consultation under section 23 of the Gas Act 1986

I am writing further to your letter dated 18 June 2007 which attached a notice section 23 of the Gas Act 1986 in respect of the transitional NTS Exit capacity and interruption incentive. Please find WWU's representation below in respect of the Income Adjusting Event threshold:-

The Income Adjusting Event figure of £1,500,000 for t=8 (2011/12) contained in paragraph 1(v) of the notice does not comply with Ofgem's consultation decision. This has occurred because Ofgem has not correctly accounted for the difference between formula years and gas years. Ofgem says in its consultation that up to 30th September 2011 the IAE is £1,000,000. However the effect of the legal drafting is that an income adjusting event occurring after 31 March 2011 would need to meet a threshold of £1,500,000. The licence, to comply with the consultation decision, needs to say that in t=8 the IAE up to 30th September is £1,000,000. However, in order to simplify the licence and to ensure adequate protection for GDNs against unforeseen increases in costs, we propose Ofgem amend the threshold for the whole formula year of t=8 to £1,000,000 in line with the two previous years.

There are instances which are outside of the GDN's control that could lead to capacity bookings exceeding targets and which could result in a financial penalty. We have a project which is likely to adversely affect our performance against the target in 2009/10 and 2010/11 because the volume targets have not taken this new required capacity into account. We therefore note that Ofgem state in their letter dated 10 May 2007 (paragraph 10) that protection against such events will be provided via the Income Adjusting Event process.

We note the points that Ofgem raise in their covering letter in respect of whether interruption payments should be included in the incentive. It is important to note that although Ofgem state in paragraph 11 that no single supply point has been interrupted for greater than 15 days in one year and hence no compensation payments have made, this is not necessarily representative of the future. We have experienced warm winters recently and if we were to experience a particularly cold winter it is likely that compensation payments will need to be made.

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

Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Coedkernew, Newport NP10 8FZ
Registered in England and Wales: No. 5046791



The incentive targets (DNExIIT) for interruption in SSCE2B Part 1b 5(b)(iv) only apply until t=5 (2008/09). This is presumably because the new interruption regime would have been in place from this time had Ofgem have not agreed to delay the introduction of the new arrangements. As the interruption auctions will now not take place until Summer 2008, the interruptible contracts will not therefore be effective until 2011. We therefore believe in order to provide adequate protection for GDNs, the existing arrangements should be extended to include a target for t=6, t=7 and t=8. We look forward to working with Ofgem to take this forward shortly.

Yours sincerely,

S. Williams

Sarah Williams
Regulation Manager
Tel: 029 2027 8539
Email: sarah.williams@wwutilities.co.uk