

## Representation

### Draft Modification Report

#### **0339 0339A – (Alternative to Mod 0339), Clarification of the AUG Year in respect of UNC Modification 0229**

**Consultation close out date:** 14 February 2011

**Organisation:** ScottishPower

**Representative:** Lorraine Kerr

**Date of Representation:** 14<sup>th</sup> February 2011

#### **Do you support or oppose implementation of 0339 or 0339A?**

0339 -Not in Support

0339A -Support

**Please summarise (in one paragraph for each) the key reason(s) for your support/opposition.**

ScottishPower are not supportive of delaying the application of the AUGS methodology for any longer than need be. UNC0339 would result in the application date of the AUG methodology being 1<sup>st</sup> April 2012, which would be over 5 years after the recognition by Ofgem of the cross-subsidy between the LSP and SSP sectors. In addition more recently Ofgem stated, in their decision letter to UNC317/A, that *'the arrangement for the allocation of Unidentified Gas should be reformed such that each market segment makes an appropriate contribution to these costs'*. We therefore believe it is wholly inappropriate for the application of the AUGS methodology to be delayed to 1<sup>st</sup> April 2012. However, we do agree that the application date for the AUGS has to strike the right balance between cost certainty for LSP shippers and continuing inequitable and unrepresentative costs for SSP Shippers. However, introducing the AUGS with effect from 1<sup>st</sup> April 2011 or 1<sup>st</sup> October 2011, will not only have the effect of incentivising all parties to ensure that the AUGS is created promptly, but ensure that the risk of unidentified gas is shared between the SSP and LSP markets in an equitable manner.

UNC0339A offers a pragmatic approach in attempting to create the right balance between cost certainty for LSP shippers and the removal of the existing cross subsidy for SSP shippers. The rationale of the proposed application date of 1<sup>st</sup> October 2011, i.e. basing this on related areas of regulation, where shippers are notified of new costs, such as the Gas and Electricity Network charges, seems sensible. An application date of 1<sup>st</sup> October 2011 will afford all relevant parties sufficient time to make any amendments to contract terms, although we do believe that LSP Suppliers have already had sufficient notice to do this already) and should also provide parties with sufficient certainty of their costs. For these reasons we are supportive of UNC0339A.

### **Are there any new or additional issues that you believe should be recorded in the Modification Report?**

None.

### **Relevant Objectives:**

*How would implementation of either modification impact the relevant objectives?*

**Standard Special Condition A11.1(d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.**

UNC0339A: The introduction of the Modification will ensure that the correct allocation of energy between LSP and SSP shippers takes effect from 1<sup>st</sup> October 2011, hence being a benefit to competition. This will enable the existing cross subsidy between LSP and SSP shippers to be removed which will improve competition.

**Standard Special Condition A11.1(f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.**

UNC0339/A: Both Modifications provide clarity and certainty over the application date of the AUGS, therefore removing any ambiguity, over the date that the first AUG statement will apply from.

UNC0339A: The proposal encourages all UNC Parties to ensure that the AUGS is developed in line with the timescales considered by UNC0229 and is not unduly delayed.

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if either modification were implemented?*

UNC0339: SSP Shippers would continue to be faced with a cross-subsidy for a further year than anticipated, i.e. from the application date of 1<sup>st</sup> April 2011 as per the legal text for UNC0229 (minus £2.7m per UNC0317), therefore paying inequitable costs for unidentified gas for longer than necessary.

UNC0339A: LSP Shippers would continue to be faced with a cross-subsidy for a further 6 months than anticipated, i.e. from the application date of 1<sup>st</sup> April 2011 as per the legal text for UNC0229 (minus £2.7m per UNC0317), therefore paying inequitable costs for unidentified gas for longer than necessary. Although this is preferable to the position created should UNC0339 be implemented.

### **Implementation:**

*What lead-time would you wish to see prior to these modifications being implemented, and why?*

This should be implemented immediately following Authority consent.

## Legal Text:

*Are you satisfied that the legal text will deliver the intent of the modification?*

*NB: while formal legal text has not been provided, Suggested Text has been included in the modification and comments on this will be helpful when the text is finalised.*

UNC0339: The draft legal text presented does deliver the intent of the Modification, i.e. that the application date of the first AUG Year will be 1<sup>st</sup> April 2012.

UNC0339A: No text has been provided.

## Which modification do you prefer?

*Please provide details if you have a preference for the implementation of either Modification 0339 or 0339A*

Our preference is for the implementation of UNC0339A. We are not in support of UNC0339. For the avoidance of doubt our overall preference is for the application of MOD340.

## Is there anything further you wish to be taken into account?

We believe UNC0339A has the further advantage of resolving any potential for the LSP NDM sector to face reallocations from both the initial £2.75m per annum, per implementation of UNC0317, and once the AUGÉ's methodology is finalised and applied from 1<sup>st</sup> October 2011. UNC0339A will ensure that the interim payment of £2.75m per annum will only apply from 1<sup>st</sup> April 2011 until the new start of the AUGÉ year, namely 1<sup>st</sup> October 2011.

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*