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Modification Panel Secretary  
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08 January 2010

Dear John

**Re: Modification Proposal 0231V: Changes to the Reasonable Endeavours Scheme to better incentivise the detection of Theft**

Thank you for providing Scotia Gas Networks (SGN) with the opportunity to comment on the above Modification Proposal. SGN do not support implementation of this Modification Proposal 0231V.

Currently, the Gas Transporters (GTs) are required under their licence to have in place a "reasonable endeavours scheme" (RES) that is approved by Ofgem and which describes the actions a supplier must take to enable them to claim certain costs from GTs in respect of the theft of gas. Due to this licence requirement, there is no mechanism which allows suppliers/shippers to make amendments to the RES. Clearly, implementation of Mod 0231V would insert the RES into the UNC. This would enable any signatory to the UNC to raise UNC Modification proposals to influence further changes to the RES.

In addition, where the relevant supplier has complied with the RES, the GT licence makes provision for the GT to "pay" a shipper an allowance regarding the theft of gas where the monies have not been recovered from the end user. The payment includes an amount that is set out in a Scheme designated by Ofgem. Under the current arrangements, neither the GT nor the shipper/supplier has the ability to modify these amounts. Implementation of Mod 0231V would insert into the UNC an equivalent table of values that the GT would be required to "pay" the shipper. It would also increase certain values in that table - increases which have not yet been justified, evidenced or substantiated within MOD 0231V - when compared to the values in the designated Scheme, such that there would be a disparity in the applicable allowance to be paid. As with the RES, if Mod 0231V were implemented signatories to the UNC would be able to propose modifications to the table in accordance with UNC Modification Rules.

Whilst SGN understands the intent of Mod 0231V, we have significant concerns in relation to the GT licence. If Mod 0231V were to be implemented without corresponding consequential changes being made to the GT licence, the GTs would be exposed to obligations set out in the UNC together with those already set out in the GT licence in respect of the RES and the amounts to be paid to shippers. Theoretically, the GTs could be exposed to "double recovery" of the relevant allowance by the shipper/supplier. Therefore, in the absence of appropriate licence amendments being made in parallel with this modification proposal we do not support its implementation.



The areas of the licence which SGN believes would specifically be impacted are:

- Paragraph 8 of Standard Licence Condition 7 - This is a requirement on a GT to set out in a document the actions a supplier must take if they are to be able to claim certain costs from the GT in respect of the theft of gas. Without consequential changes to the GT licence being made and if Mod 0231V were to be implemented, then the GTs would be exposed to RES obligations set out in two places, one in the licence and one in the UNC. This is clearly inappropriate and unacceptable.
- Paragraph 5, 6 & 7 of Standard Licence Condition 7 - These paragraphs provide for payments to be made to shippers where the requirements of the RES have been met; and the determination of those values including those set out in a Scheme designated by Ofgem. If Mod 0231V were to be implemented without consequential changes being made to the GT licence the GTs would be under two obligations to make payments to suppliers, one under the existing licence condition and one under the UNC. This is clearly inappropriate and unacceptable.
- Special Condition E3 - The GDNs' price control includes a pass-through term relating to the costs incurred by a supplier as set out in Standard Licence Condition 7. If Mod 0231V were to be implemented and relevant consequential licence changes not made to Standard Licence Condition 7 the GDNs would have no means of recovering the money paid to suppliers under the proposed UNC arrangements. Again this would be unacceptable.

It has been recognised that licence changes are likely to be associated with this Modification proposal as per the 'suggested licence changes' note forwarded by Ofgem at the 14 May 2009 Distribution Workstream. <http://www.gasgovernance.co.uk/dist/140509>. However, further discussions regarding this aspect of the proposal have not been taken forward to address the points raised in this response. SGN believe it to be critical that we do not have duplicate obligations, particularly in respect of our exposure to costs which under the price control principles and settlement are pass-through items. Therefore, SGN consider implementation of the proposal would not further facilitate Standard Special Condition A11.1 (c) the efficient discharge of the licensee's obligations until such time the licence related concerns are addressed satisfactorily.

In summary SGN do not oppose the principles of this proposal; however, we are unable to support the modification itself due to the licence issues as identified above not being addressed concurrently.

We hope you find these comments helpful.

Yours sincerely

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