Joint Office of Gas Transporters
enquiries@gasgovernance.com

28 May 2010

Dear Sir/Madam,

DNPC07 LDZ System Charges Capacity Commodity Split

Thank you for giving ScottishPower the opportunity to respond to the above Consultation Paper. We have made a number of general observations in relation to the points made in the consultation Paper with our specific answers to the questions in the Appendix to this letter.

We do not support the proposal as set out in the Consultation Paper. As we previously stated in our response to DNPC03 we do not believe the entirety of costs can be attributed under capacity costs. We also believe that placing more emphasis on fixed costs removes the incentives on DNs to continue to drive forward efficiency savings and can remove incentives on consumers to reduce energy consumption and adopt energy efficient practices.

We also continue to have concerns over the current settlements arrangements, whereby under the existing UNC AQ Review rules, amendments are not permitted to Small Supply Points AQ values if they fall within the +/- 20% tolerance of the Provisional AQ values provided by the Gas Transporters agent at the start of the AQ Review. While we strive to maintain accurate AQ values since they fundamentally drive transportation and energy cost allocations, we believe with the current proposal to move to 100% fixed cost, greater flexibility within the current AQ process is essential to ensure that Shippers/Suppliers have the ability to react quickly to changes in consumers consumption patterns.

As a result of analysis undertaken by ScottishPower with regards to the number of valid amendments that currently fall outside of AQ amendment tolerance (+/-20%) we have raised UNC Modifications (0292 and 0293) to lower or remove this tolerance. The removal or lowering of the tolerance will allow Shipper/Suppliers to react within the AQ amendment window if the Gas Transporter’s agent’s provisional AQ value calculated does not match actual consumption. However it should be noted that the absence of a domestic appeals window presents additional risks and financial uncertainty. In the event that a SSP AQ value changes during the Gas Year there is no mechanism for review outwith the AQ Review process. Shippers/Suppliers require to wait until a subsequent AQ Review for the AQ value to be amended.

Therefore, we continue to believe that any further changes to the capacity/commodity split should not be progressed until such times as UNC Modifications 0292 and 0293 have had the opportunity to complete.

Thank you once again for the opportunity to comment on the proposals set out in the Consultation Paper, If you wish to discuss any of the comments made in more detail, please do not hesitate to contact me on 0141 568 3231.

Yours sincerely

David McCrone
Assistant Commercial Analyst
*sent by email therefore not signed

Appendix

1. Should the Charging Methodology be changed so that the capacity element of the LDZ System charges is set to recover 100% of the revenue from the LDZ system charges, and the commodity element is set to zero, compared with the current 95%/5% target split?

As we set out in our response to DNPC03, we continue to be unconvinced that the majority of costs incurred by DNs are not influenced by their throughput. We note that the analysis provided in the Consultation paper is that which was provided in DNPC03 and we have still not received a sufficient level of detail to allow us to understand the justification for the proposals put forward then or now.

A charging methodology which is based solely on fixed charges places pressure on Suppliers to review their charging structure and place more emphasis on the fixed charge elements of their own prices such as standing charges. Our experience as a Supplier highlights that end consumers do not generally favour the application of fixed charges within supply contracts and tariffs. Although the proposed change is small in comparison to than introduced as a result of DCP03 any addition to fixed cost elements will act as a disincentive to consumers to monitor their usage and does not promote energy efficiency. In reality this will adversely impact on low users and benefits high users, which is not desirable and is at odds with all the energy efficient measures being undertaken by Suppliers.

Under current UNC AQ Review rules, amendments are not permitted to Smaller Supply Point AQ values if they fall within +/-20% of the Provisional AQ value provided by Gas Transporters agent at the commencement of the review. We believe that with any review of capacity and commodity charge allocations, there should also be greater flexibility within the current AQ Review process to ensure Shippers/Suppliers have the ability to react more quickly to changes in customer consumption patterns as it these AQ values fundamentally drive transportation and energy cost allocations. We continue to believe therefore that it remains inappropriate to introduce more change to the capacity/commodity split until the current industry initiatives in this arena have been completed.

We are therefore not in support of the proposal to change the LDZ System Charge split to that of 100% capacity and 0% commodity.

2. Should Interruptible supply points pay 50% of the firm LDZ System capacity charge so as to maintain the value of the discount received by interruptible supply points at its current level, on average?

While we do not favour the above proposal, we acknowledge the proposals to maintain the value of discount received by interruptible supply points at its current level.

3. Should this change be made with effect from 1st April 2011?

Although we are not supportive of the change should it proceed we would not like to see implementation prior to any decision on the AQ amendment Modifications, which we hope to be prior to 1st April 2011.