

Joint Office of Gas Transporters
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28th August 2007

Dear Sir/Madam

DNPC03 LDZ System Charges - Capacity/Commodity Split and Interruptible Discounts

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 raised within the Consultation Paper.

With regard to the proposal to recovery 95% of the LDZ system charges through a capacity based charging regime, we continue to remain unconvinced by the assertions made by DNs that the largest majority of the their costs are not influenced by the level of throughput. While DNs have attempted to demonstrate some justification by providing high-level information relating to costs, we have not been provided with a sufficient level of detail to allow us to understand the justification for the proposals put forward.

In addition we are concerned that a move to, in reality, a 96.5% capacity based transportation charging regime removes the necessary incentives on DNs to continue to drive forward efficiency savings across their networks. While it could be argued that controls currently exist within the Price Control, it may prove difficult to benchmark future performance improvements where the recovery of transportation charges is largely fixed.

Stability and Frequency of Price Charges

We welcome the proposal submitted by Ofgem to modify Standard Special Licence Conditions A4, A5 and D11 of the Gas Transporter Licence to allow DNs to update distribution transportation charges twice a year i.e. on 1 April and 1 October or by any other time as selected by the Authority. In addition it is proposed that DNs will require to give 3 months notice as opposed to the current 5 month notice period for price changes. A Change Proposal was raised and approved by the Authority to the Distribution Connection Use of System Agreement (DCUSA) to require that Electricity Distributors use reasonable

endeavours to raise changes to their charges twice a year i.e. on 1st April and 1st October. ScottishPower support the view of Ofgem that the proposed Licence change will bring benefits to the Industry by allowing DNs to react more quickly to changes in Allowed Revenue over/under recovery indicators and will align the frequency of change to gas and electricity charging arrangement.

Impact of change on the end Consumer

Domestic and I&C customers do not favour the application of fixed charges within supply contracts and tariffs. The proposed changes to the capacity/commodity charge elements puts increased pressure on Suppliers to review their charging structure arrangements. ScottishPower recognise that the introduction of increased standing charges acts as a disincentive to consumers and does not promote energy efficiency principles. Previous social initiatives, including those within Ofgem's Social Action Plan, have worked towards reducing the number of households that fall into the category of fuel poverty. The proposed re-structuring of transportation charges could ultimately result in an increase prices for some consumers, which would act against the objectives of this social programme.

Settlement Arrangements

Under current UNC AQ Review rules, amendments are not permitted to Smaller Supply Points AQ values if they fall within +/- 20% of the Provisional AQ value provided by xoserve at the commencement of the AQ Review. While Shippers/Suppliers strive to maintain accurate AQ values as these fundamentally drive transportation and energy cost allocations, we believe with the proposed changes in capacity charge allocations, greater flexibility within the current AQ Review process is required to ensure that Shippers/Suppliers have the ability to react more quickly to changes to customer consumption patterns.

AQ values are calculated using historic meter reading data therefore a customers up-to-date consumption does not necessarily match the AQ value assigned. We therefore require the ability to revise AQ values on a more frequent basis. ScottishPower has been undertaking analysis with regard to the number of valid amendments that fall outside the current AQ amendment tolerance i.e. +/- 20%. Our evidence suggests that this tolerance level is set too high and we are keen to explore lowering the tolerance to a more acceptable level. In addition to lowering the tolerance value, we believe that domestic Supply Points should be open to year round appeals. This will allow Shipper/Supplier to react quickly should the current AQ value fail to match their customers' actual consumption and will therefore reduce the risk of incurring inappropriate transportation and energy costs. With the current storage and data processing constraints within the UK Link system, we are being advised that reviewing system operations to allow greater flexibility within the AQ Review process may prove problematic and potentially could affect system performance.

We therefore do not believe that it is appropriate to introduce a changes to the capacity/commodity split until such times as a full review of the settlements processes has been undertaken. While DNs can argue that the proposed changes will bring greater stability to the recovery of their cost base and should

reduce the volatility of transportation charges, we consider that until a review of settlement and system operational processes is undertaken and the outcome of other industry projects such as Offtake Reform is known that no further changes should be made to the structure of charges. Additionally, a further move to recover transportation costs through what can be regarded as an increased fixed element needs to be carefully considered and balanced against the detrimental impact that this may have on domestic and I&C consumers.

Modification Review Group 168 has been set up to look at Individual Meter Point Reconciliation. We believe that until the potential solutions under this project have been explored and Industry systems have been developed to allow greater accountability and transparency on the application of costs to the domestic market sector that the changes in the transportation charging arrangement should be delayed until at least October 2012.

If you wish to discuss any comment made in more detail, please do not hesitate to contact me.

Yours faithfully

Marie Clark
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ScottishPower