



Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
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Solihull
West Midlands
B91 3QJ

10 April 2008

Dear Julian,

Modification Proposal 0196: Alterations to shipper penalties for end user failure to interrupt.

Thank you for providing Scotia Gas Networks with the opportunity to comment on Modification Proposal 0196. Scotia Gas Networks does not support the proposal and would like to provide the following comments.

The Modification Proposal has been raised to remove parts of UNC TPD Section G which relate to Users failing to interrupt. At the time the Modification Proposal was raised UNC TPD Sections G 6.9.6 through to 6.9.8 stated that where there have been occasions on which there have been failures to Interrupt at any Interruptible Supply Point(s) of a User and the number of occasions is equal to or greater than 5 in any one Gas Year, then all the Interruptible Supply Points of which the User is the Registered User will be designated Firm from the failure Day, unless the User demonstrates to the Transporters reasonable satisfaction that the User had taken all reasonable steps to comply with the requirement to Interrupt.

This proposal aims to remove these sanctions. The Proposer argues that they are disproportionate. The Proposer argues that if there is an HSE issue associated with a site failing to interrupt, the DNs can resort to physically isolating the Supply Point. SGN does not support this approach.

The provisions set out in UNC TPD Section G 6.9.6 through to 6.9.8 have been in existence for several years and we believe have provided a strong incentive for Shippers to ensure they have appropriate arrangements in place and ensure that customers fully understand the importance of interrupting on instruction. This is essential as there can be significant safety and operational consequences associated with a Supply Point failure to Interrupt. In certain circumstances this could have a material impact on other end users.

We note that the number of occasions on which there have been failures to interrupt is limited. We would argue that this is primarily as a result of the robust commercial and operating arrangements including incentive arrangements set out under UNC TPD Section G. However

they do still occur and as such we believe it is essential to maintain the current robust arrangements.

Where failure to interrupt occurs SGN works with the Shipper and end user to investigate the circumstances and ensure that they fully understand their obligations and processes as set out under the UNC to avoid a similar situation arising again. SGN is not aware of any circumstances under which the provisions in Section G 6.9.6 and 6.9.7 have been implemented.

We strongly believe that the current arrangements strike a reasonable balance between protecting the integrity of the system and other customers and providing an incentive for Shippers and end customers who fail to interrupt. For failure to interrupt to occur 5 times in any one Gas Year we believe there would likely be a significant problem or failure on the part of a Shipper or customers. In such situations all efforts to educate and work with parties involved would be likely to have failed. Failure to interrupt charges as set out in Section 6.9 would also have failed. We believe the measures set out in Section 6.9.6 and 6.9.7 are required in order to protect the integrity of the system and other customers.

We would like to stress that where the Shipper is able to demonstrate that they have taken all reasonable steps to discharge their obligations Section 6.9.8 provides protection. Whilst it is very difficult to be prescriptive about exactly what would be required in every situation we believe the section as drafted provides sufficient latitude for all parties. At the very least we would expect the Shipper to be able to demonstrate that he had made reasonable effort to follow the procedures set out in the UNC Section G to contact the Shipper and advise the DN where there is a problem.

We note the alternative set out in the Modification Proposal is that the Transporter should physically isolate the Supply Point. We would like to point out that whilst this option is always open to Transporters and would if necessary be used to protect the system, **it should only be used as a last resort and should not be used as the primary means of resolution. Physical isolation by the Transporter takes time and by its nature only happens after a failure has occurred. As such the delay in isolation imposes additional risk to the system and other customers.**

Extent to which implementation of the proposed modification would better facilitate 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;

The Proposer argues that the “5 strikes rule” disproportionately penalises Users for a failure to interrupt by a customer. It is important that Shippers fully understand their obligations and role in relation to interruption arrangements and are incentivised to ensure appropriate arrangements are in place with end users. The arrangements would only be invoked against a Shipper to the extent that they were not fully discharging their obligations, as such we do not agree that they are disproportionate or in any way detrimental to competition. We would argue that they are proportionate and have been successful in protecting the system, the generality of Shippers and ultimately end users.

As stated above, we believe there would have to be a significant problem for the rule to be applied. Section G 6.9.8 provides protection to any Shipper that has worked with the Transporter and is able to demonstrate that they have taken all reasonable steps to discharge their obligations. If a Shipper felt a Transporter had acted unreasonably in applying the rule they would be entitled to consider dispute arrangements set out in General Terms Section A.

Standard Special Condition A11.1 (a); the efficient and economic operation of the pipe-line system

The Modification Proposal states the DNs have the option to physically isolate any Supply Point as an alternative where a Supply Point fails to interrupt. SGN considers this is wholly inappropriate. Physical isolation should only be used as a last resort and believes the current arrangements incentivise Shippers to ensure robust arrangements are in place with end users and Supply Points interrupt when requested to do so. SGN believes removal of the incentive would result in a decline in performance. This could have a significant impact on operation and integrity of the system and interruption arrangements; therefore we believe the Modification Proposal could have a significant detrimental impact on relevant objective A11.1 (a).

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal.

SGN believes the Modification Proposal as it stands may have significant contractual consequence for the Transporter as it is not clear how the Proposer intends the arrangements around physical isolation would work. There is no detail of the procedures to be followed. In particular it is not clear whether any communication would take place between the DN and Shipper. We believe the Shipper should be involved in the process as our contractual relationship is with the Shipper and obligations under the UNC ultimately rest with the Shipper. It is important that this relationship and obligations are maintained.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- ***Removes an unduly onerous risk from the Shipping/Supplier Community and ensure that competition is secured*** - SGN believes that by removing this 'risk' it will cause the Shipper to be less diligent and effective in managing their customers and discharging their obligations, in particular, the way the customers take gas from the system. Introduction of this Modification Proposal could increase the incidence of failure to Interrupt which may have an adverse impact on other Shippers and end users, as it may increase the need to interrupt other customers. This would have a detrimental effect on the wider gas community and undermine competition.
- ***Removes the uncertainty surrounding the need to justify that reasonable steps had been taken in the event that a customer had failed to interrupt*** - SGN believes that if there is uncertainty as to what a Shipper is reasonably expected to do in such circumstances, it would be far better to seek to provide clarity in this area rather than remove sanctions altogether.

Disadvantages:

Whilst no disadvantages have been identified by the Proposer, SGN believes there could be significant disadvantages in relation to robustness of interruption arrangements and ability to manage the system and respond to a situation in a speedy and efficient manner. The Proposal effectively introduces uncertainty and moves some responsibility for interrupting from the Shipper and end user to the Transporter. It places additional emphasis on the DN physically managing a network constraint through isolation. Physical isolation takes time to instigate and therefore builds additional risk in to arrangements. There are a number of ways that this could be managed but one impact could be that higher levels of interruption would need to be called to compensate for uncertainty and the additional risk and time delay should a Supply Point fail to interrupt. This has not been fully assessed within this Proposal.

In summary SGN does not support the above proposal. We strongly believe that the current arrangements strike a reasonable balance, protecting the integrity of the system and customers. As stated above, for failure to Interrupt to occur 5 times in any one Gas Year we believe there would likely be a significant problem or failure on the part of a Shipper or

customers. In such situations all efforts would have been made to work with parties involved. We believe the measures set out in Section 6.9.6 and 6.9.7 would be required in order to protect the integrity of the system and other customers where such actions and failure to interrupt charges had obviously failed.

Finally, we note that following implementation of Modification Proposal 090 on 1st April 2008, significant changes have been implemented in relation to the sections referred to in Modification Proposal 196. We believe the relevant provisions now sit under the Transition Document Part IIC, paragraph 9.9.6, 9.9.7 and 9.9.8. From 1st October 2011 arrangements are replaced with completely new DN Interruption arrangements as part of the wider programme of reform, which includes different sanctions on failure to comply with contractual obligations.

We hope you find these comments helpful.

Yours sincerely

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