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Modification Panel Secretary
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Dear Julian,

Modification Proposals: 0210 Implementation of NDPC03 (LDZ System Charges - Capacity / Commodity Split and Interruptible Discounts), the Alignment of Failure to Interrupt Charges and the Alignment of the IFA Charge.

Thank you for the opportunity to comment on Modification Proposal 0210. Scotia Gas Networks fully support implementation of Modification Proposal 0210.

SGN notes that this proposal follows lengthy industry wide consultation in relation to DN charging arrangements. The proposal to amend the proportion of capacity related charges follows Ofgem consultation ("Conclusions on the review of the structure of gas distribution charges" published February 2006) as a result of which it was determined that increasing the proportion of capacity related charges would overall better reflect the actual costs associated with running a gas distribution network, and more cost reflective charging should help incentivise efficient behaviour on the part of users of the network.

Proposals were taken forward in Distribution Network Price Consultation 03 (DNPC03) which was issued by DNOs in July 2007 and which again involved lengthy industry discussion. Ofgem carried out an Impact Assessment in October 2007 and final proposals were issued with a decision letter in December 2007.

This Modification Proposal seeks to implement the necessary changes to the UNC to facilitate implementation of that pricing consultation by removing the current exemption that applies to interruptible Supply Points in relation to LDZ Capacity Charges. At the same time the proposal also seeks to address associated consequences e.g. in relation to FTI charges and IFA charges following implementation of Modification Proposal 0090.

SGN believes implementation of this Modification Proposal is required to fully facilitate implementation of more cost reflective charges through changes to the capacity / commodity split, as determined through industry consultation and pricing consultation DNPC03. The actual level of



charges will be set out in GDNs Transportation Charging Statements. It is noted that interim arrangements have been included to ensure that interruptible Supply Points are broadly held neutral until full implementation of DN Interruption Reform in 2011. In particular, under DNPC03 interruptible Supply Points will only be required to pay a proportion of capacity charges from 1st October 2008, to ensure they continue to make a reasonable contribution towards the cost of running the network. Otherwise the continued payment of the commodity element only would have equated to a considerable and inappropriate discount for this group of customers. Whilst charges have been set to ensure that on average customers are held neutral, depending on actual usage and load factor, the impact will vary across individual customers. In general, those that make greatest use of system capacity will be required to make a greater contribution.

SGN believes that overall implementation of the above proposal will ultimately better facilitate the following relevant objectives, relative to the status quo:

Standard Special Condition A11.1(a) and A11.1(b)

By ensuring appropriate arrangements are in place in relation to FTI charges, appropriate incentives would be maintained to ensure Shippers and customers interrupt on instruction, thus facilitating efficient and economic operation of the pipe-line system.

Standard Special Condition A11.1(e)

By facilitating full implementation of the charging methodology, the proposal helps ensure cost are recovered in a more cost reflective manner with a greater proportion being recovered through the capacity element of GDN transportation charges. This in turn removes any potential for cross subsidy or inappropriate discounts, particularly by ensuring interruptible Supply Points will in the interim period pay an element of capacity charges. This should help facilitate competition as Shippers and customers will be required to pay on a more cost reflective and equitable basis.

We note concerns have been raised by a couple of respondents in the last few days in relation to the level of increase in charges likely to be experienced. It is disappointing that concerns weren't raised earlier, particularly under DNPC03 as this would have allowed more time to explore the issues. However, as highlighted throughout discussions, the level of charges set for interruptible Supply Points in the interim period, are such that on average customers should be broadly neutral. It is a natural consequence in such situations that individual impact will vary, depending on load factor of individual sites. However we that in general, this is logical and is in line with the intent of the changes, which is to ensure that charges are more closely aligned to utilisation of capacity on the network. It is also important to note the other issues addressed by this proposal e.g. FTI and IFA charges. We believe that overall, the above proposal would bring benefits and improvements, relative to the status quo.

We hope you find these comments helpful.

Yours sincerely

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