



St Lawrence House
Station Approach
Horley
Surrey
RH6 6HJ

Modification Panel Secretary
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
West Midlands
B91 3LT

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Dear John

Modification Proposal: 0224 - Facilitating the use of AMR in the Daily Metered Elective Regime.

Thank you for providing Scotia Gas Networks with the opportunity to respond to Modification Proposal 0224. Scotia Gas Networks would like to offer comments on the Modification Proposal at this stage.

UNC Modification Proposal 0224 has been discussed at both the Distribution Workstream and at the previous UNC Review Group 0175 (Encouraging Participation in the Daily Metered Regime) at great length and has benefited from extensive development between Shippers, Transporters and xoserve around the business rules and User Pays framework which supports the introduction of the regime and the ongoing operation of the process.

The Modification seeks to introduce an unbundled Daily Metered (DM) service into the UNC which would allow Shippers to procure a DM service and utilise their own AMR equipment for Supply Points for the purpose of providing daily readings to the Transporter to be utilised in balancing and daily settlement processes. The rationale behind the Modification Proposal points to the current service provided by the Transporters which mandates Shippers to nominate Supply Points which are interruptible and/or with an AQ > 58,600,000 kWh as DM but also allows Supply Points > 73,200 kWh and < 58,600,000kWh to exist as a voluntary DM site. The proposer argues that the current DM service cost offered by the Transporters is prohibitive in terms of encouraging non-mandatory Supply Points to enter the regime and that by unbundling the regime to allow Shippers to provide their own readings an increased number of Supply Points would be able to take advantage of the regime and participate accordingly. The proposer further argues that with the introduction of the Supplier Licence Obligation which requires all Supply Points >732,000kWh to be fitted with AMR equipment by 2014, Modification Proposal 0224 would further support this process by encouraging such Supply Points to participate in the daily settlement regime through an economic incentive.

SGN would provide the following comments in relation to the sections in the Draft Modification Report specifically in line with the relevant objectives.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives.

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates:

SGN agree with the proposer that an increased number of Supply Points participating in the Daily Metered regime would result in an increased number of reads provided to the Transporters' agent which in turn would provide more detailed information on the daily usage profile of such Supply Points. However it is unclear to what extent many of the eligible supply points in the proposed regime would modify their gas consumption away from the current NDM profile and as such the magnitude of the resulting change. Where Supply Points do not modify their usage the information available to Transporters will not be significantly increased beyond what is currently available. It should be further noted that Transporters currently utilise daily metered information when validating and modelling their gas network information. This information is currently available to Transporters on an hourly basis and allows a more detailed analysis of gas consumption patterns across a network. It is unclear from the proposal whether this information will be made freely available by Shippers to Transporters as it is currently not proposed that such detailed data will be transmitted in the DM Elective regime.

It is further stipulated in the Draft Modification Report that the benefits of introducing AMR through the Elective Daily Metered regime would increase the information available to Transporters regarding the reduction of gas consumption during a gas emergency. SGN agree that the increased installation of AMR equipment in the >732,000 kWh sector would provide more detailed information in this regard, however this benefit could potentially result through the planned roll out of AMR technology without the necessity of introducing a Daily Metered Elective regime.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b) the efficient discharge of the licensee's obligations under this licence;

SGN agree with the proposer that where Shippers elect for NDM Supply Points to participate in the DME regime costs will be allocated on a more targeted basis, however it is likely that only a small percentage of NDM Supply Points are likely to participate in the DME regime and as a result Transporters will still be required to maintain the NDM reconciliation process and the associated NDM sampling point data collection process. Further to this requirement the UNC Demand Estimation Sub-Committee discussed the use of data recorded at a DME Supply Point for inclusion in the NDM profiling exercise. Their discussion concluded that DME Supply Points should not be included within the profiling exercise as DME Supply Points would have the ability to adjust their profile and would not be representative of other NDM Supply Points within a particular EUC band. This would require Transporters to exchange out NDM profiling points from DME Supply Points to alternate sites which would in turn increase costs to Transporters and also increase the risk to the NDM profiling process that insufficient data is available.

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 suppliers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

SGN believe the proposal may offer benefits to Shippers and Suppliers in terms of the range of contracts Shippers would be able to offer their end user consumers, however the benefits which would be afforded to Shippers (and potentially end users) through the introduction of DME are not transparent over and above what is currently available through the NDM market. DME will also increase the provision and ease of access to consumption information but again, it is unclear the extent to which this data would be made available by Shippers / Suppliers.

4. The Implications of implementing the Modification Proposal on security of supply, operation of the total system and industry fragmentation.

SGN agree the introduction of DME may increase demand side management where there are instances of high gas prices although it is unclear to what extent current NDM end users, having opted to switch to a DME regime, would be able to or be financially encouraged to turn down or turn off their gas usage in periods of high demand.

5. The implications for Transporters and each Transporter of implementing the Modification Proposal including:

(b) Development and capital cost and operating cost implications:

SGN agree with the proposer that the User Pays approach to funding both the development costs of the proposal and the future operating costs should be funded on a User Pays basis. Although future demand information has been made available by Shippers which gives an indication of expected take up and thus expected cost recovery there remains a risk that large development costs are not recovered in a timely manner where expected demand is not realised.

Further to our previous comments in relation to the NDM profiling sample, SGN are concerned that costs in this area will increase as a result of the potential requirement to re-locate profile logging equipment.

In summary SGN agree there may be benefits to certain Shipper organisations although the exact benefits have not been made sufficiently clear throughout the development of the proposal and as a result whether the relatively high cost of the service is justified. SGN are aware MOD 0224 is one of the first proposals to utilise the User Pays principle to assign costs to specific organisations that would benefit the most from the proposal and are in agreement with the proposer that Shippers in principal should fund 100% of this specific change although a full cost benefit analysis exercise should be undertaken to fully justify development costs against the benefits. We are also unclear as to whether all funding organisations will actually participate in the regime and as a result, despite being given the opportunity to participate, whether the cost allocation model is in itself equitable.

We hope you find these comments helpful.

Yours sincerely

Joel Martin
Scotia Gas Networks
Direct Tel: 0131 5596024



Email: joel.martin@scotiagasnetworks.co.uk

24 hour gas escape number 0800 111 999*
*Calls will be recorded and may be monitored

Scotia Gas Networks plc
Registered in England No. 04958135
Registered Office: St. Lawrence House, Station Approach, Horley
Surrey, RH6 9HJ
www.scotiagasnetworks.co.uk