



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: 0229 - Mechanism for Correct Apportionment of Unidentified Gas

Thank you for providing Scotia Gas Networks with the opportunity to respond to Modification Proposal 0229. SGN are supportive of the principal to equitably allocate unidentified gas energy between the large supply point and small supply point sectors and to a measured extent agree with the principle of an independent expert completing such a task. However, the approach Shell Gas Direct (SGD) employ in UNC Modification 0229 of introducing a framework to facilitate an independent expert we strongly disagree with and after considerable contractual and legal analysis, understand would be unworkable on a practical basis adding to further delay in the allocation process and potentially necessitating further UNC Modifications to improve and correct the process. Therefore, to confirm, SGN are not supportive of UNC Modification 0229.

SGN would further comment on the following areas of the Modification:

1. The Methodology Employed by the Allocation of Unallocated Gas Expert.

Modification 0229 was raised by SGD in response to 4 previously raised Modification proposals, MODs 194, 194A, 228 and 228A which attempted to introduce (a). A framework to allow the introduction of the concept of unallocated energy into the UNC via a table of values and (b). A method to reallocate the energy (UNC MODs 228 & 228A) using LSP RbD market share. We note previous UNC MOD responses from Large Supply Point Shippers who did not support the methodologies included in UNC MODs 228 & 228A, believing they were inequitable, resulting in large allocations of gas energy charges to the LSP sector. MOD 229 introduces the concept of an independent expert (the Allocation of Unallocated Gas Expert - AUGÉ) to examine evidence from various areas of the gas industry as to the causes of unidentified gas energy, the extent to which differing market sectors contribute to this error and the actual allocation of this volume to the relevant sectors. MOD 229 does not define any methodology to be used by the AUGÉ and instead provides a set of criteria in the attachment to the proposal which should be followed (transparency, non discriminatory, does not cross subsidise and ensures effective competition between Shippers and Suppliers). SGN agree with is criteria for the AUGÉ to operate under but it does not represent a defined methodology to be used by the AUGÉ in his / her undertakings. It is recognised that the proposal does allow impacted parties to present consultation responses to the AUGÉ within 28



days of the methodology being declared and subsequently for parties to query any subsequent gas energy allocations within a query process. It is quite likely that this process in itself may lead to significant delays in at the attribution of unallocated energy.

2. Contractual Framework to Appoint a AUGE.

Modification 0229 sets out a contractual and tendering framework for the appointment of the AUGE by Transporters. SGN have significant issues with the appointment of the AUGE in this manner as we believe it would (a) be significantly complex with the requirement of multi – lateral contracts between each Transporter and the AUGE and each gas Shipper and each Transporter for the provision of this service, (b) place increased liability risk on the Transporters and (c) provide for a conflict between the decision of the UNCC to appoint a specific AUGE and the ability of the Transporter (s) to actually contract with that organisation or individual. A more appropriate contractual framework would see Shipper organisations contracting directly with the AUGE organisation either directly, through an appropriate industry body or alternatively a consultancy organisation which has experience in tendering and contract management in this field. During discussions at Distribution Workstream meetings parallels have been drawn between the RbD auditor and Meter Error Expert appointment processes, citing these specific examples as evidence that an AUGE appointment process based on a similar framework could be implemented. The RbD auditor process is a contractual arrangement between Transporters and the auditor with all costs being borne by the Transporters with prescribed rules defining the RbD process for the appointed auditor to measure against. The Meter Error Expert similarly has a defined process to audit as specified in the UNC Offtake Arrangements Document and is again a contract between a single Transporter and the auditor.

The costs associated with the appointment of an independent AUGE have been defined in MOD 229 as User Pays. SGN agree that all costs associated with the allocation of unallocated gas energy should be borne by Shippers however MOD 229 does not define a suitable process for the recouping of the actual AUGE costs. MOD 229 provides for all Transporter agency costs to be recovered through User Pays, such as the provision of evidence to the AUGE by xoserve and the eventual invoicing, however costs such as the actual AUGE costs and contractual and tendering costs are non agency costs and as such would not comply with the User Pays methodology. We presume, as previously discussed that each individual Transporter would be required to contract with each individual Shipper on a multi-lateral basis to recover these costs leading to the potential for contractual disagreement and delay. There is also no definition of how these costs should be apportioned to each Shipper organisation.

In summary SGN agree that the issue of unallocated gas energy and the equitable apportionment of these volumes between the SSP and LSP communities requires to be addressed and would support such a Modification Proposal that provided a workable regime that allowed this allocation to flow. In our view the framework described in MOD 229 requires further work with particular reference to the framework under which an AUGE would be appointed and as such can not support 229 at this stage.

We hope you find these comments helpful.

Yours sincerely

Joel Martin
Scotia Gas Networks
Direct Tel: 0131 5596024
Email: joel.martin@scotiagasnetworks.co.uk



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