

Bob Fletcher  
Joint Office of Gas Transporters  
31 Homer Road  
Solihull  
B91 3LT

12 September 2011

Dear Bob,

**Re: UNC Modification Proposal 0382 – Reducing the capacity element of LDZ system charges for SSPs**

Thank you for the opportunity to provide representation of the above noted Modification Proposal. Northern Gas Networks (NGN) is not supportive of this Modification Proposal. Please find below NGNs comments in respect of the Modification Proposal.

**NGN are not supportive of this Modification.**

**Summary of key reasons:**

The Gas Transporters have an obligation to set charges in a non-discriminatory and cost reflective manner. In order to achieve this the methodology for setting charges is kept under constant review to ensure that any changes in the industry that may impact on how the GTs incur costs will be reflected appropriately in the way that charges are set.

In 2007 the GDNs carried out a review of the charging methodology to consider whether the costs incurred by DNs were reflected in the charges being related to 50% commodity (throughput) activity and 50% capacity activity. This work (DNPC03) resulted in a change in October 2008 to the charges to reflect 95% capacity related charges and only 5% commodity charges in a manner that more closely reflects the costs incurred by the DNs.

While we are sympathetic with the issues raised about phasing of revenues and costs for suppliers, the changes made in DNPC03 to change the balance of capacity and commodity charges from 50:50 to 95:5 were made to ensure that the revenues of the DNs were cost reflective. No evidence has been provided as to whether this has changed in such a way that would lead the GDNs to seek to reverse the changes made in DNPC03.

NGN further believe that it is not appropriate to make changes to the charging methodology for only the SSP market without robust supporting evidence that this market sector differs enough to warrant having different charging methodologies.

NGN notes that one of the arguments for making this change is that the supplier revenues are seasonal and related to throughput, and that therefore the GDN charges should mirror this arrangement. The phasing of revenue collection for shippers will depend on their business model (i.e. pre-payment metering, direct debit, etc) and the choice of business model used by individual suppliers cannot be considered to be an appropriate reason for changes to the structure and methodologies for transportation charges.

**Additional or new issues:**

None.

**Relevant Objectives:**

NGN considers that this Modification does not facilitate the relevant objectives as indicated by the proposer. Specifically, NGN considers:

Condition	Description	NGN view
A11.1(a)	Efficient & economic operation of the pipe-line system	None
A11.1(b)	Efficient & economic operation of the combined pipe-line systems	None
A11.1(c)	Efficient discharge of the licensee's obligations	By reversing the changes made in DNPC03 for part of the market the GDNs would no longer be effectively discharging their licence obligations in respect of non-discriminatory and cost reflective charges.
A11.1(d)	Securing effective competition: i) between shippers ii) between suppliers iii) between DN operators & shippers	None
A11.1(e)	Provision of economic incentives for security of supply to domestic customers	None
A11.1(f)	Promote efficiently in implementation & administration of the UNC	None

**Impacts and costs:**

No comments

**Implementation:**

NGN does not believe that this Modification should be implemented, however, if the Authority were to decide to direct implementation then it would be expected that at least a 12 month lead time would be required, making an April 2013 implementation the earliest feasible time.

**Legal text:**

NGN agrees that the legal text provided reflects the intent and content of the Modification Proposal.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,



Joanna Ferguson  
Network Code Manager