

Representation

Draft Modification Report

0388 - Fixed parameters for determining Shipper contribution to Unidentified Gas

Consultation close out date: 30 September 2011
Respond to: enquiries@gasgovernance.co.uk
Organisation: Scottish and Southern Energy
Representative: Mark Jones
Date of Representation: 30 September 2011

Do you support or oppose implementation?

Not in Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

Please see the response to question 5. Essentially we are of the strong view that Ofgem's concern, and hence the reason for their further questions, is fully justified and that the proposal will definitely discriminate between LSPs and SSPs, as LSP uncertainty is reduced at the expense of greater uncertainty for SSPs.

Ofgem have indicated that it would be particularly helpful if the following questions could be addressed in responses:

Ofgem understand that the main issue to be solved is the reduction of costs associated with the SAP mechanism. This involves replacing SAP with a fixed price. They are concerned that this may discriminate between LSPs and SSPs, as LSP uncertainty is reduced at the expense of greater uncertainty for SSPs.

Ofgem ask the following questions to better understand the context and scale of the issue, and how the solution will affect parties.

Understanding the processes

1. Would it be helpful to show, through a diagram, how the current and proposed pricing flows are passed through the industry.

Understanding the scale of the problem

2. The proposal sets out that the existing pass-through mechanism mainly affects approximately 75% of LSP NDM customers. What proportion of all gas goes to these parties?

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Understanding the strength of the proposed solution

3. Do you agree LSPs are less able to manage the risk of fluctuating prices and to what extent?

We do not agree that the LSPs are less able to manage the risk of fluctuating prices.

4. What is the level of saving made by LSPs under this modification proposal - for example of avoiding administration costs?

5. Would the risk borne by SSPs under this modification proposal increase?

The risk borne by SSPs would increase under this proposal as SSPs incur costs for unallocated gas at a SAP price, but would get the rebate back at a non SAP price. Effectively LSPs would hedge the price of their unidentified gas at a fixed price against the SSP market for no risk premium which is inequitable.

Furthermore, by fixing the market sector volume at 1st October any risks on changes to the sector volumes after this date would again be borne by the SSP sector.

6. How does the modification proposal affect the allocation of unidentified gas between parties?

Any changes to the market sector shares during the gas year would result in a potential misallocation of unidentified gas between SSP and LSP shippers.

7. What are the arguments for a shipper not taking on this risk?

If SSPs take on this risk then it could ultimately lead to higher customer prices within this sector, exactly the counter argument made in the mod proposal about lowering the risk and prices to LSP customers.

8. For a range of different gas price scenarios, how are parties affected? For example, is a long--run increase in gas prices taken into consideration?

9. If one sector (SSPs or LSPs) is always going to have to bear the risk set out by this modification proposal, which sector is better able to manage that level of risk efficiently and effectively? At present, how does each sector deal with risk?

It is equitable for each sector to bear its own level of risk and hence why the SAP based price in Mod 229 should be used.

Implementation of the proposed solution

10. What are the implementation costs associated with this modification proposal in the following two cases: a) decision is reached before 1 November 2011; b) decision is reached after 1 November 2011?

11. If this modification results in losses or gains for LSPs, in comparison to the baseline solution (P299), should they be recovered through the subsequent AUGÉ process?

They should be recovered, although it is difficult to see how this can be achieved without a further modification.

12. Would a further modification be needed to make the adjustment envisaged by the previous point (question 11)?

In our opinion it would.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We cannot see how any of the relevant objectives would be bettered.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

Yes.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No.