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06 January 2012

Dear Bob,

RE: UNC Modification 0390 – Introduction of a Supply Point Offtake Rate Review and Monitoring Process.

Do you support or oppose implementation?

Support.

Please summarise the key reason(s) for your support.

Thank you for providing SGN with the opportunity to respond to the consultation exercise in relation to UNC Modification 0390. As the proposer of UNC MOD 0390 we fully support the implementation of this proposal which was developed following extensive discussion on the subject of Supply Point Offtake Rate accuracy within UNC Review Group 0329. The implementation of UNC MOD 0390 would introduce two new obligations into the UNC in relation to the review, on an annual basis, of Supply Point Offtake Rates (more commonly referred to as SHQs) and also to obligate Shippers to monitor SHQ reductions with their customers.

Following the Ofgem decision letter¹ relating to Scotland Gas Networks' application to re open the 2008-2013 GDPCR to accommodate further allowances for capital expenditure resulting from network reinforcement requirements, SGN raised UNC Modification 0329 to analyse, in conjunction with the industry, the current processes in relation to SHQs and also potential changes to the regime to ensure accurate SHQs were maintained by Shippers. The Review Group, which was comprised of GTs, Shippers and end user representatives, considered several proposals to incentivise Shippers to provide SHQs which were more representative of end user requirements. One such proposal looked to link SHQs to the LDZ system capacity charging regime which would base User's charges directly in line with their hourly capacity requirement. As the GTs plan their networks to ensure adequate supply at 1:20 peak winter conditions based on hourly flows it was

¹ http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/SGN_LTS_Authority_Decision_letter.pdf

considered that this type of charging regime may be more representative of the cost Users' capacity requirements placed on the GT's networks. However the impact on the industry both in terms of charge restructuring and IT system changes was considered to be large in relation to a move, at this stage, to charging based on the SHQ. However, the option to consider an hourly capacity charging regime was not discounted entirely and may be necessary in the future should the requirements the implementation of MOD 390 would deliver prove to be ineffective.

Alternative proposals were also discussed in relation to an annual SHQ review process which would require Shippers and DNs to work together to share information in relation to actual hourly consumption patterns to ensure SHQs were accurate. UNC Modification 390 looks to introduce such an annual SHQ review process between DNs and Shippers which would place a requirement on DNs to monitor and review Daily Metered peak winter flows in relation to Shipper nominated SHQs in Sites and Meters. Where the DN considers the contracted SHQ is not representative of actual hourly consumption, either less than or more than the contracted figure, the DN would enter into a dialogue with the Shipper to discuss the amendment of the existing SHQ. The rules detailed in the MOD specify the Shipper would also then be required to discuss the SHQ figure with their end user customer. In the event that a Shipper contracted SHQ (specified in Sites and Meters) were to be less than the actual recorded hourly consumption the Shipper would be expected to increase the SHQ via the existing capacity referral process (and any subsequent required amendment to the SOQ) to reflect this discrepancy and also to remain in line with existing UNC obligations (UNC TPD Section G5.3.2 a). Where the Shipper contracted SHQ is found to be greater than the recorded actual on site hourly consumption the Shipper, in conjunction with the end user should consider lowering the contracted figure. Adjustment of the SHQ following this review process will assist in lowering the risk of capacity sterilisation and the potential for inappropriate network investment leading to unnecessary cost to end consumers.

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

We have reviewed the initial consultation representation made by the Major Energy Users Council (MEUC) and are disappointed that they have not been able to offer support for the implementation of this Modification Proposal. The MEUC representation states their concerns in relation DNs and Shippers entering into discussions regarding the setting of SHQs without consultation with the end user or their representative. The existing contractual obligations detailed in the UNC, although made between DNs and Shippers, already require Shippers to maintain a monitoring regime for SHQ increases with their end users (UNC TPD Section G 5.3.4). The implementation of this Modification Proposal would not exclude discussions between the Shipper (and Supplier) with the end user to agree a usage reflective SHQ. The legal text provided alongside the Draft Modification Report specifically requires the Shipper to engage with the end user or their representative to facilitate this process (proposed UNC TPD Section G 5.7.4).

We have also reviewed the National Grid Transmission (NTS) consultation response to this Modification Proposal and agree with the point they raise in relation to the original legal text provided by SGN. The version of legal text provided to the Joint Office of Gas Transporters for inclusion in the Draft Modification Report (DMR) did not include the necessary amendment to the Transitional Document (Part IIC) 11.4.6 to exclude NTS supply points. Unfortunately this required amendment to the legal text was provided to the Joint Office after the DMR was released for consultation and hence the DMR does not

include this particular amendment, however NTS were furnished with a copy and indicated that they were satisfied that the amendment to the Transitional Document reflected the Modification in full, i.e. that NTS supply points were excluded. The background to the issue points to the existing text detailed in UNC TPD Section G5.1.1 which excludes NTS supply points from all of the provisions specified in UNC TPD Section G5. It is our understanding that the lawyer was not aware of the existing Transitional arrangement detailed in Part IIC 11.4.6 which includes NTS supply points for the purposes of TPD Section G5 until 30th September 2012. As the Modification Proposal was clear in its intent to exclude NTS supply points from the provisions UNC Mod 390 would introduce if implemented, we would suggest the Modification would not require to be re-consulted upon due to this discrepancy.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

As SGN have stated within the Modification Proposal we believe the implementation of UNC Modification 0390 would better facilitate the relevant objectives A11 (a) Efficient and economic operation of the pipeline system, (b) Coordinated, efficient and economic operation of (i) the combined pipeline system, and or (ii) the pipeline system of one or more relevant gas transporters, (c) Efficient discharge of the licensee's obligations and (d) Securing effective competition (i) between relevant Shippers.

Impacts and Costs:

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

Implementation of this Modification Proposal would require the DNS' network planning teams to complete an annual review of SHQs which would increase the resource requirement in this area; however we do not consider this would place an undue resource constraint in this area.

Implementation:

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

The business rules detailed within the Modification Proposal require the DN to analyse actual DM Supply Point hourly data within the month of April each year and to provide to the Shipper by the end of April a report setting out the relevant information in order that the SHQs can be reviewed. Hence, should the Authority determine that this Modification Proposal should be implemented we would suggest a suitable implementation date to be 06:00 on the 1st April 2012. The DNS have already instigated Xoserve's assistance in the technical aspects of compiling the SHQ report which is planned to be in place by the beginning of April 2012 and the process to review SHQs is already a familiar process to SGN's network planning team. In relation to Shipper required lead time we would suggest that as existing UNC obligations require Shippers to monitor SHQs for potential increases, existing processes should satisfy the requirement to monitor decreases in the SHQ. Also, as Shippers will have existing communication lines in place with their customers to discuss their requirements we would suggest the obligation to review the SHQ on an annual basis should be adequately addressed via these communication channels.

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?

No.

Yours faithfully

Joel Martin