

Representation

Draft Modification Report

0404 - Profiling payment of LDZ capacity transportation charges for Small Shipper Organisations

Consultation close out date: 05 April 2012
Respond to: enquiries@gasgovernance.co.uk
Organisation: **Wales & West Utilities**
Representative: Robert Cameron-Higgs
Date of Representation: 29 March 2012

Do you support or oppose implementation?

Not in Support

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

WWU do not support this proposal for a number of reasons, the detail of which is captured throughout this consultation response. Our opposition is centred on a number of key principles and facts. The proposal provides for arbitrary qualifying thresholds with no apparent rationale for their inclusion. This potential discriminatory approach introduces a level of risk and bureaucracy for Transporters, together with the potential for shipper behaviour which makes this proposal inappropriate. The legal text introduces concepts that were not fully explored in workgroup discussions. Elements of the legal text are confusing and ambiguous which may lead to differing interpretations of the proposals' application should it be implemented in its current form.

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

The legal text introduces new issues which we believe were never considered or discussed in Workgroup discussions. These are captured in the legal text section of our response.

0404

Representation

dd April 2012

Version 1.0

Page 1 of 4

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Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

The proposal negatively impacts the relevant objectives set out below

Relevant objective d) Securing of effective competition:

- (i) Between relevant shippers;*
- (ii) Between relevant suppliers;*

The proposed arbitrary limits 100,000 SSP's and organisational Code Credit Limit of £500,000, provide a cliff edge qualifying criteria which will differentiate between 'like' shippers/suppliers. It could be argued that a Shipper growing its portfolio and business is penalised for this 'success' by no longer being able to take advantage of this competitive payment advantage provided by proposal 0404.

Relevant objective f) Promotion of efficiency in the implementation and administration of the Code.

This proposal would necessitate the Transporters having to operate a two tier set of payment/invoice rules. This doubling of rules and its inherent inefficiency is compounded by the proposed legal text which provides little or no guidance on timeframes by which a qualifying small shipper can opt for this service. Equally where there is a definitive rule provided, this compounds the issue of Transporters having to deal with increased inefficiency as the new rules can be applied month by month by a qualifying shipper, and not for the total 'summer' period .

Impacts and Costs:

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

WWU's ongoing extra analysis would be the additional month on month payment/interest calculations and records, and invoice charge type 'exception reporting'.

Implementation:

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

Legal Text:

Are you satisfied that the draft legal text (to be provided by Scotia Gas Networks alongside the Draft Modification Report) will deliver the intent of the modification?

We are not satisfied that the legal text delivers the intent of this proposal and introduces new concepts not anticipated by the proposal nor discussed at Workgroup.

For ease of assessment our concerns are set out below in the order they appear in the legal text.

3.9.1 (a) (ii) – We are unclear what this paragraph will deliver. If it is about ensuring larger more established shippers with a number of individual shipper short codes and credit limits are removed from these 0404 rules, then we do not believe the legal text provides this assurance.

3.9.3 & 3.9.4 – This clause refers to a “profiling notice”. What does this look like? Is it meant to be a defined term? Additionally, there is no timescale associated with a shipper providing the GDN with such a notice. If a Shipper provides such a notice the day before the first applicable invoice is due, how does the GDN know if the Shipper satisfies the qualifying criteria? How do Xoserve confirm the criteria to GDNS in this timeframe? These paragraphs also allow a Shipper to utilise this 0404 service in any summer month, but not all. This was not the intent of the proposal and was never considered in any workgroup discussions.

3.9.5 The reference to interest means Applicable Interest Rate (we assume) as defined in Section S. This has the potential to triggers multiple admin charges (£40 - £100 charge). Does the proposal anticipate shippers will be billed this amount? If so, is it for every month of the summer period?

3.9.7 – We believe this is a redundant term. The timeframes in 3.9.6 cover this point.

Defined Terms

Qualifying User Point (ii) refers to a limit of £5000,000. This should be £500,000

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.

We do not believe this proposal should be implemented. Aside from the points made above we have reservations about the suitability of the proposal, which are briefly set out below.

- Absence of any interest during Workgroup discussions, from those potentially affected shippers, suggesting this proposal is not required.
- Complex bureaucracy for GDNs and Shippers
- Absence of timeframes for utilisation of service (making administration and compliance issues for GDNs /Xoserve problematic)
- Apparent ability to use the service on a month by month basis in summer period (never the intent)
- Increased risk of bad debt as part payments in summer may mask inability to pay; insolvency risk re part payments being viewed as a shipper asset if comprehensive allocation to part paid invoices is not achievable.
- No obvious need why SSP shippers with direct debit customers would require such a service, as cashflow should be uniform.
- WWU have (and will continue) to work with any distressed shipper (in conjunction with Ofgem) to alleviate temporary issues. This proposal places an unnecessary one size fits all burden on GDNs and Shippers re complex bureaucracy with no evidence to support its requirement.
- Value at Risk (VAR) impact – potential additional security cost for Shippers