

Julian Majdanski
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Dear Julian

Modification Proposal 005(0726): Provision of a Guarantee of Pressure for Meter Points operating above 21mbar by the Relevant Transporter, Version 4.0

Thank you for providing Scotia Gas Networks with the opportunity to comment on the above modification proposal.

This proposal was originally raised by BP Gas Marketing late last year and has been subject to extensive industry discussion. Whilst SGN appreciate that in some cases there may be a need to review, clarify or formalise existing arrangements or requirement for enhanced pressure, we are concerned that the above proposal raises a number of questions, is a significant departure from current arrangements and could have material consequences that do not appear to have been thought through. We believe appropriate provisions already exist within the UNC (Section J) for relevant parties to enter into Ancillary Agreements and provide for special offtake pressures.

We believe the proposal as contained in Modification Proposal 005 would be detrimental to the economic and efficient operation and development of the pipeline system. We are not clear how a Transporter could comply with the proposal and Gas Act obligations.

The proposal seeks to place an obligation on the Transporter to provide and maintain a pressure guarantee in excess of 21mbar at the ECV of a service, where this can be physically supported under normal operating conditions for non-NTS loads. Such an arrangement would be formalised through an Ancillary Agreement between the Transporter and customer under the UNC. With the exception of site specific details, the Agreement would be generic.

It is proposed that existing sites would automatically attract "grandfather rights" at no additional cost. This means that following a request from a customer, the Transporter would need to confirm the pressure setting of the metering governor and on this basis prepare an enhanced pressure agreement. It is suggested there would be no need for the Transporter to recover any operating or investment costs as such a service is already being provided. SGN do not agree with this view. In most cases where enhanced pressure is currently made available it is provided on an informal, reasonable endeavours basis. There is not an open ended or guaranteed entitlement. Enhanced pressure may be available for quite specific reasons and under quite specific conditions. Transco has always been clear that unless an Ancillary Agreement exists there is no obligation on the Transporter to provide enhanced pressure. Even where a formal agreement exists, it has only ever been provided on a reasonable endeavour basis and is not enduring.

The suggestion that any existing arrangements, irrespective of circumstances, whether formal or informal, should automatically become a **permanent** obligation on the Transporter at no additional cost is unreasonable. Firstly, and quite importantly, it is not clear what is meant by normal operating conditions. Under what circumstances would it be deemed reasonable for the Transporter not to meet the enhanced pressure commitment? There is no definition of normal operating conditions and the potential exceptions have not been considered in the proposal, draft modification report or Workstream discussions. For example, we would argue that for the low-pressure network, our understanding of normal operating conditions would effectively exclude the granting of more than 21mbar in all cases. That aside, the requirement to provide enhanced pressure on a permanent basis could also have significant additional operating and / or investment costs across the network. The Transporter has an obligation to operate and invest in his network in an economic and efficient manner. The requirement

to automatically provide enhanced pressure to a few specific customers, without the ability to recover such costs or to the detriment of others could conflict with such an obligation.

BP has suggested that the Transporter should have the ability to recover costs in relation to new requests or where the customer wishes to change their requirements. It is proposed the Transporter should only be required to provide the enhanced pressure if the customer is willing to pay. Even if the customer is willing to pay, it is not clear to us what, if any costs would be recoverable or on what basis e.g. should he be able to recover all associated investment and operating costs? How would additional operating costs be determined and over what timeframe? How should such costs be recovered? If all costs, including ongoing operating costs are not fully recovered from the relevant customer, would other customers be required to subsidise his specific enhanced pressure requirements. Such a cross subsidy could be significant and could be to the detriment of other customers and ultimately competition. It could also be argued that this is discriminatory.

It is proposed that the agreement would be between the Transporter and customer. Parallels are drawn with the NEXA. However NEXAs are not enduring, they provide for arrangements to be reviewed or terminated. It is also at odds with other related UNC provisions and Gas Act provisions.

The Gas Act makes it an offence for a person to arrange with a Gas Transporter for gas to be introduced into, conveyed by means of or taken out of a pipeline system operated by the Gas Transporter unless authorised to do so by licence. For this reason, capacity is booked and held by the Shipper. Associated UNC provisions have been developed around this "shipper hub" principle. As capacity and pressure are inextricably linked we believe it would have made sense that pressure commitments are entered into by the same party. We do not believe the "complexities" associated with transferring pressure commitments at change of shipper or supplier are significant.

We note that BP has suggested the Ancillary Agreement and Procedures would sit under the UNC. We are not clear how this would work in practice where the contracting party is the customer. Customers are not party to the UNC and therefore under no obligation to comply with any of the provisions or make changes to these provisions.

In summary, whilst SGN supports the principle behind this proposal we believe a number of significant issues have not been addressed. We believe appropriate arrangements already exist within the UNC for parties to enter in to or formalise any enhanced pressure requirements. At the time this proposal was raised Transco reiterated its offer that any customers wishing to formalise or discuss arrangements contact them direct. We have not received any approaches from customers or Shippers. If Shippers have a concern, SGN is happy to work with them on this issue.

We are concerned that this particular proposal is at odds with fairly fundamental principles and a number of relevant objectives. We do not believe it would better facilitate achievement of relevant objectives. We believe the proposal as it stands could in fact reduce a Transporters ability to operate the network in an economic and efficient manner and could result in significant additional operating and investment costs. We are concerned that this would be to the detriment of the vast majority of customers. We do not believe this is in the interest of competition. We believe it could be argued it is unduly discriminatory.

We hope these comments are helpful.

Yours sincerely

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Gas Market Development
Scotia Gas Networks