

Modification Proposal 0098/0098a: Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology

Thank you for providing SGN with the opportunity to comment on the above modification proposals. SGN does not support implementation of Modification Proposal 0098 but does support implementation of Modification Proposal 0098a.

Modification Proposal 0098

Governance Arrangements

SGN supports the principle that the ECQ methodology should come under the governance of the UNC and that Shippers and Transporters should have the ability to propose changes. SGN is also supportive of the principle that a common methodology should be applied by all Transporters. Indeed this is the current intention under existing arrangements. We believe these principles help ensure transparency and efficiency in implementation of the arrangements. It also ensures the ECQ methodology works in the way intended and understood should a potential or actual Gas Deficit Emergency occur.

The ECQ methodology itself does not set out commercial terms. It is not true that principles can only be delivered by incorporating the entire ECQ methodology within the UNC. We believe the ECQ methodology is a procedural document and like other methodology statements, it is just as appropriate and potentially more efficient for governance and modification to be dealt with by the UNC Committee. The Committee has balanced representation of Transporters and Shippers as it is made up of UNC Panel members. We believe the UNC Committee process would give parties more flexibility and allow them to respond to changing circumstances or requirements much quicker. The Committee would, as now, always have the option to refer a matter to wider industry consultation, making use of the modification process set out in the modification rules under the UNC without formally raising a Modification Proposal if it was felt this would be beneficial. Methodologies would still be required to be published therefore there would be complete transparency.

Inclusions of Nominations

SGN's believes Modification Proposal 0098 goes beyond simple governance arrangements and adds a further and significant change to the existing methodology, including User nominations. There are a number of issues associated with this aspect of the proposal which we believe have not been thought through. They require careful consideration. A significant amount of effort and expenditure would be required to resolve some of these issues. We question whether there would be a real or net benefit:

- Nominations are essentially used for balancing purposes. As such DNs do not currently have access to nominations. They are held in Gemini. DNs would either need to develop functionality to gain access and interface with Gemini or require GNCC to develop a report and capability to pass information on within appropriate timescales.
- We believe the majority of nominations held in Gemini are aggregated at Shipper level, not site level as required to calculate ECQs. Even if DNs could access nominations, assumptions would need to be made regarding how nominations should be allocated so that a curtailment quantity could be calculated for relevant sites. If assumptions have to be made, it is likely that this would reduce the accuracy. Functionality would need to be developed to allow DNs to quickly allocate the nominated quantity across sites.
- Nominations are provided by Shippers. As they are used for balancing purposes across the whole of the gas day, the focus is often on the end of day position. Nominations will be updated and finalised later in the day when the Shipper has a better understanding of their likely end of day position. We are unclear that they would provide a more accurate indication of actual usage at points throughout the day, particularly early in the Gas Day.
- OPNs are provided by the consumer, often direct from site. They are used for operational purposes. We believe OPNs are more likely to be updated on a regular basis throughout the day and are more likely to give an accurate picture of intended usage throughout the Gas Day.

From initial and high level analysis undertaken to date, SGN believes there are significant system and process implications associated with this proposal which would need to be thought through. As an initial guide, we believe it would take in the order of 6 months to implement this proposal and it is likely to cost in the order of £200,000 to implement.

We do not believe there is sufficient evidence to suggest the use of nominations would ensure the ECQ methodology would give a more accurate estimate of the ECQ.

Modification Proposal 0098a

This proposal focuses on governance arrangements only. It suggests the methodology would be a UNC ancillary document. Amendment would require approval of the UNC Committee which is made up of UNC Panel Members (Shippers and Transporters). We believe this is a balanced and efficient governance arrangement, allowing Shippers and Transporters to influence and determine appropriate change, providing flexibility and the ability to respond quickly and effectively to changing circumstances.

Modification Proposal 0098a does not propose any changes to the actual methodology itself, in particular the use of nominations. We do not believe there are any cost or implementation issues. We believe the proposal is simple, and could be implemented quickly.

Extent to Which Implementation of the proposed modification would better facilitate the relevant objectives

0098

We do not believe modification proposal would better facilitate the economic and efficient operation of the pipeline system as it has not been proven that the use of nominations would ensure Transporters would have the best estimate available. Indeed we believe in most cases accuracy would be reduced. As steps would have to be implemented sequentially, nominations would still have to be used, even when Transporters were aware they were not accurate or representative. We believe the use of nominations would not provide the incentive intend through the implementation of the ECQ process. We believe this would be detrimental.

Given significant potential for nominations to misrepresent intended usage, we do not believe it is likely to improve the extent to which it would secure effective competition; indeed we are concerned it would be detrimental to competition.

0098a

We believe this proposal seeks to ensure more balanced and transparent governance arrangements whilst ensuring they are kept simple, flexible and responsive to needs. As such we believe the proposal should help promote efficiency in implementation of the UNC and facilitate competition between Shippers and Suppliers.

Implications for Security of Supply and Operation of the Total System

Given our concerns regarding the use of nominations under Modification Proposal 0098 and their ability to reflect intended usage, SGN would argue accuracy could be reduced. We believe concerns relating to transparency and consistency are more appropriately addressed under Modification Proposal 0098a.

Implications for Transporters of Implementing the Modification Proposal Development and Capital Cost and Operating Cost Implications

SGN does not believe functionality could be developed to ensure nomination reports could be provided to DNs under Modification Proposal 0098 for this coming winter. SGN is also concerned that as detailed above, even if reports were provided, in a significant number of cases nominations would be aggregated at Shipper level and not site level. Significant development would be required to allow Transporters to quickly disaggregate data contained in the report to allow them to calculate site specific ECQs following curtailment.

Extent to Which it is Appropriate to Recover Costs and Proposal for Recovery of Costs

Modification Proposal 0098 is not clear in how costs would be recovered. We do not envisage any significant costs will be incurred should 0098a be implemented therefore this isn't an issue.

Development Implications and Implications for Related Systems of each Transporter

The system currently used to calculate ECQs does not have any functionality to automatically select different methods sequentially as proposed under 0098. Transporters would need to open and amend existing code. It is estimated that it would take in the order of 6 months to include nominations and the sequential processing. Initial high level assessment suggests cost could in the order of £200k. Implementation would not be possible for September 2006.

There are no development or system implications under Modification Proposal 0098a. Modification Proposal 0098a could be implemented immediately.

In summary SGN supports implementation of 0098a but not 0098. We believe 0098a better facilitates the relevant objectives. We believe there are some significant concerns with 0098 which require further investigation and consideration before implementation could be considered.

We hope you find these comments helpful.

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