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(by e-mail)

Dear Tim

UNC Draft Modification Reports 0317/0317A and 0327 - Interim Allocation of Unidentified Gas Costs

Thank you for the opportunity to respond to the above Draft Modification Reports. ScottishPower has submitted one response, which includes our views on each of the Modifications Proposals.

This response is non-confidential and ScottishPower are happy for this to be posted on your website.

ScottishPower are supportive of MODs 0317A and 0327 and not supportive of 0317 for the reasons explained below. However it should be highlighted that our preference is for MOD327, given that the information relates to data provided by xoserve and actual market conditions.

Due to the time that it will take to fully develop and implement the AUGÉ and associated methodology, as contemplated within MOD 0229, we welcome recognition of the fact that the LSP market should be picking up an estimated share of unidentified gas volumes until MOD 0229 is fully implemented. The main difference between these Modifications relates to the level of contribution that should be made by the LSP market during this interim period.

It has been widely recognised and acknowledged in the industry for at least 3 years that LSP Shippers should be contributing to the cost of unidentified gas. The Modifications raised by Shell Gas Direct (SGD) and British Gas (BGT), respectively, aim to address this issue. However we are concerned that MOD317 does not include the functionality to reconcile back to 1st April 2011, the introduction date of the AUGÉ. For this reason we believe that MODs 317A and 327 are more appropriate and ensure that there is adequate incentive to appoint the AUGÉ in a timely manner. We certainly believe that an appropriate incentive is required to ensure that SSP Shippers, and their customers, are not continually exposed to the full costs of unidentified gas. While we acknowledge the ICoSS sponsored report that was used to base the proposed value of £2.75m under MOD 317, we strongly agree with BGT that this figure significantly undervalues the true volume of unidentified gas which should be paid for by LSP shippers. We have reviewed the report presented by

ICoSS and note the concerns that the report itself flags in relation to the robustness of the analysis undertaken:

- Page 1 Para 1 – “It should be noted that owing to the quality of data available to undertake this task the work should be treated with confidence and not distributed without ICoSS approval”
- Page 1 Para 5 – “We emphasise how strongly the results are influenced by our aggregate theft and “network” theft assumptions, which are not underpinned with sound data”
- Page 3 Point 2 “Given the paucity of reliable information of reliable information relating to these issues, we were reluctant to conduct analysis that could become publicly available” – “paucity” actually means scantiness or dearth
- Page 7 Point 25 – “The table covers an extremely wide range of potential aggregate theft levels and our choices for “High”, “Central” and “Low” cases were necessarily somewhat arbitrary...”
- Page 17 Point 56 – “We emphasise how strongly the results are influenced by our assumptions, and that our assumptions in many cases, in particular aggregate theft levels and “network” theft proportions, were not underpinned with sound data. The results should be viewed in this light”.
- Page 17 Point 58 “We believe that more high quality information and data on aggregate theft levels and the “network” theft proportion is required before an apportionment methodology of the type described here could be used in practice”

Until the solutions proposed by MOD 0229 are fully implemented and operational we will not know the absolute contribution that LSP shippers should make to unidentified gas. This is evident by the fact that ICoSS have confirmed that their conclusions were derived from data provided by xoserve and British Gas during the development of Modification 0194 and 0194A, or was provided to Ofgem by xoserve in order for them to undertake the impact assessment, which seems to indicate that each of the MODs have the same credibility in terms of data used. However, given that the figures and analysis used and conducted by BGT, relate directly back to actual figures experienced by the SSP market (and provided by xoserve) in relation to RbD over the last three years, and are not based on a number of assumptions, we believe that it is more appropriate that these should be used as an interim measure. Also, as proposed in MOD317A and MOD327 we do agree that there should be a reconciliation back to the implementation date of the AUGE (1st April 2011), whether credit or debit, when the actual values are established by the AUGE.

We have an additional concern if the MOD317 proposal were to be accepted, as central and high cases noted in the ICoSS report relate to RbD throughput, which will fluctuate depending on demand. In our view given the continued changing demand pattern, past throughput cannot necessarily be used as a proxy for future exposure. For this reason we believe that MOD327 is more robust and has in fact been provided by xoserve through MOD081 reporting.

For the reasons detailed above we are supportive of Modifications 0317A and 0327 and not 0317, however we believe that MOD327 is a much more robust estimate to use.

Facilitation of Relevant Objectives

ScottishPower agrees with the Proposer of 0317A and 0327 that the proposed modifications would better facilitate the following relevant objectives:

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;*
- (ii) between relevant suppliers; and/or*
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.*

The implementation of any of the Modifications would facilitate this objective by ensuring costs are more appropriately allocated between the SSP and LSP market sectors. Hence, this will help facilitate effective competition between shippers.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of network code and/or the uniform network code:

The implementation of these Modifications will ensure that interim arrangements are put in place to apportion a level of contribution from LSP shippers to unidentified gas until the solutions detailed within 0229 are fully implemented. Such interim arrangements will ensure that the levels of contribution made towards unidentified gas by both SSP and LSP shippers are set in a fair, transparent and non-discriminatory manner.

I hope you find these comments useful and should you wish to discuss further please do not hesitate to contact me.

Yours sincerely,

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