Representation

Draft Modification Report

0382 - Reducing the capacity element of LDZ system charges for SSPs

Consultation close out date: 12 September 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **SGN**

Representative: Joel Martin

Date of Representation: 12th September 2011

Do you support or oppose implementation?

Not in Support

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

The move from 50/50 to 95/5 Capacity Commodity split in October 2008 was based on cost analysis presented by the GDNs which showed that approximately 95% of LDZ system costs are unaffected by throughput, being either directly related to the provision of capacity on the system or being relatively fixed indirect costs which are more appropriately recovered through capacity charges than through commodity charges. The move to 95/5 therefore represented an improvement in the cost reflectivity of the structure of the LDZ system charges. A move back to 50/50 for SSPs would represent a reduction in the cost reflectivity of the charging structure. It would also introduce different capacity/commodity splits for SSPs and LSPs for which there is no cost justification.

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

The different capacity/commodity splits for SSPs and LSPs could lead to distortions in the proportions of revenue recovered from the SSPs and LSPs because of the greater impact which weather would have on the SSPs. For example a period of unseasonally warm weather would lead to under-recovery from the SSPs, and this under-recovery would go into K which would then be recovered across all supply points in the following period. LSPs could therefore be paying revenue which originally was intended to be paid by SSPs. These distortions would have no cost-based justification.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Implementation of this mod would adversely affect the achievement of two of the relevant objectives:

Cost Reflectivity: It would adversely affect the achievement of cost reflectivity as it would create a structure of the LDZ system charges which would be less cost reflective than current charges.

Competition: It would adversely affect the achievement of the promotion of competition as it would make a large proportion of the transporters' income temperature sensitive which in turn would reduce the predictability of collected revenue, increase K, and therefore tend to increase the volatility of transportation charges.

Impacts and Costs:

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

There would be additional analysis and development costs within SGN and Xoserve to establish the new charges and thereafter there would be additional ongoing costs associated with Transportation Pricing within SGN calculate and monitor charges on a different basis for SSPs and LSPs. The ongoing costs within Scotia would be in the order of £10,000 pa.

Implementation:

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

The lead time we would wish to see would be 12 clear months before the 1 February on which the new charges would be published for the first time.

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?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No.