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Dear Bob,

RE UNC Modification Proposal 0404 – Profiling Payment of LDZ Capacity Transportation Charges for Small Shipper Organisations.

Thank you for providing Scotland Gas Networks and Southern Gas Networks with the opportunity to respond to the consultation relating to this UNC Modification Proposal. At this stage SGN would wish to provide comments with regard to the implementation of this proposal.

The background to the raising of UNC Modification 0404 by SGN relates to the initial raising of UNC Modification Proposal 0383 by Utilita in May 2011 which proposed a change to the UNC to permit the profiling of LDZ Capacity charges in line with small domestic Shipper organisation's ability to pay, also in line with the seasonally variable income from their end users. SGN identified a requirement to assist small shipper organisations with the development of this proposal and subsequently raised UNC Modification 0404 which detailed specific business rules which would provide a framework to enable a sub-section of Shipper organisations to participate in a profiling payment regime. SGN understand that not all Shipper organisations have the resource to attend industry meetings to enact the development of UNC Modification Proposals and therefore considered assistance with the development of these proposals was appropriate. Throughout SGN's RIIO stakeholder meetings there also emerged a consistent theme from smaller Shipper organisations in relation to cash flow concerns and it was deemed appropriate to develop a proposal which would highlight these concerns and also explore the potential for changes to the UNC to address specific requirements of small Shipper organisations.

The implementation of UNC Modification 0404 would provide for a sub set of Shipper organisations to participate in an annual process which would permit the payment of up to 50% of their monthly LDZ System capacity charge (including the capacity element of the customer charge) over the months of May to August inclusive. The re-payment of the outstanding amounts would be smeared over a six month period commencing in October of the same financial year. The business rules associated with this 'profiling of payments' represents the concerns raised by small Shipper organisations regarding the impact flat DN Capacity charges across the year have on their cash flow standing in comparison to the income their Supplier arm receives from their registered end users, which is profiled in line with gas usage. Smaller Shipper organisations have indicated that the reduced income they

receive from their end users in the summer creates a cash flow problem in relation to the payment of a flat capacity charge from the DNs. Although many Supplier organisations offer contractual terms to their end users which provides for a flat charge across the year utilising a direct debit arrangement, a number of Supplier organisations indicated that they concentrate on pre-payment arrangements which in turn is reflective of the profiled usage of gas across the year.

The Modification Proposal also proposes that a criterion be set to allow a sub-set of Shipper organisations to participate in the process of profiling of charges. This business rule reflects the original Proposal initiated by Utilita to restrict the profiling of payments to smaller Shipper organisations concentrating on the Smaller Supply Point market. Modification Proposal 0404 proposes that an upper limit of 100,000 Smaller Supply Points be set to restrict availability of the process to small Shipper organisations only. This reflects the original Utilita Proposal's intent and also introduces a further business rule to restrict participation to group organisations with a Code Credit Limit of less than £500,000. It was considered that it may be appropriate to restrict the profiling process to organisations which absolutely required the facility and not permit the whole industry the option to participate. During the development of Modification Proposal 0404 SGN were clear that, were a more appropriate criteria to be suggested and justified that there was the potential to modify the Modification Proposal. However, we are not aware that any such alternative criterion was put forward and therefore we have maintained the original criterion.

Relevant objectives:

Within the Modification Proposal SGN have indicated that relevant objective (d) Securing effective competition between (i) relevant Shippers and (ii) between relevant Suppliers would be better facilitated. By introducing a process which provides for small shippers to profile their transportation payments and who also may not have equal access to financing arrangements during the current financial climate, the proposal may provide a more level competitive arena allowing small Shippers to compete with larger organisations in the domestic supply market.

Yours faithfully

[by e-mail]

Joel Martin