

## Representation

### Draft Modification Report

#### 0418 and 0418A - Review of LDZ Customer Charges

**Consultation close out date:** 02 August 2013  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** Scotland & Southern Gas Networks  
**Representative:** Joel Martin  
**Date of Representation:** 02 August 2013

#### Do you support or oppose implementation?

**0418** - Support

**0418A** - Not in Support

#### If either 0418 or 0418A were to be implemented, which would be your preference?

Prefer 0418

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

Thank you provided the opportunity to respond to the consultation on UNC Modifications 418 and 418A. As the proposer for UNC Modification 418 we offer our support for its implementation as we believe it would introduce changes to the transportation charging methodology which would provide a basis to better reflect transportation costs through charges compared to the current regime. UNC Modifications 418 and the alternate Modification 418A would both introduce changes to the charging methodology which would permit a DN specific charging basis for the Customer charge as opposed to the national structure which has been in place since network sales. Both Modifications would also introduce a different structure to the Customer Charge with the charges being based on three cost centres, emergency service provision, service replacement costs and asset related costs. UNC Modification 418 reflects the costs associated with the asset related costs (primarily costs associated with the Domestic Load connection Allowance – DLCA) across all customers irrespective of the size of their load. As the DLCA is an allowance, provided for under legislation it is inherently a socialised cost. Modification 418 provides for a mechanism to recover these costs in manner which would not adversely impact on a specific group of customers to a significant extent. UNC Modification 418A would introduce changes to the charging methodology which would create large charge increases to a specific group of customers which SGN consider to be a negative impact on the operation of effective competition in the market.

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

None identified.

### Relevant Objectives:

*How would implementation of each modification impact the relevant objectives?*

Relevant objective (a) ***'save in so far as paragraphs (aa) or (d) apply, that compliance with charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business'***.

SGN consider both modification proposals would better facilitate this relevant object as both proposals introduce a charging methodology change to better reflect transportation costs in the three categories. Both proposals would also link individual DN costs in these three areas to the customer charge, therefore allowing a greater level of cost reflectivity. The recovery of costs associated with the DLCA are handled differently by both proposals. SGN consider that as the DLCA is an allowance there is no clear method of allocation of these costs through charges to customers.

Relevant objective (b) ***'that, so far as is consistent with sub – paragraph (a), the charging methodology properly takes account of developments in the transportation business'***.

SGN consider that as both proposals introduce the ability for individual DN costs to be reflected in the customer charge (as opposed to a national cost structure) that this relevant object is better facilitated by the changes either Modification would introduce.

Relevant objective (c) ***'that, so far as is consistent with sub – paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers'***.

SGN consider UNC Modification 418 better facilitates this relevant objective and Modification 418A does not better facilitate this objective. The rationale for this position is related to the treatment of the DLCA costs within Proposal 418A which would attribute the DLCA costs on a commodity charge rate basis which would impact significantly on a specific segment of the market. We agree that MOD 418A would attribute DLCA costs across the whole market to all customers and would in that respect support the definition of this costs as an allowance, however we consider the impact on a specific sub-set of gas Shippers, those concerned with industrial and Commercial gas supply would be negative and therefore would not support this relevant objective.

### Impacts and Costs:

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

Transporters have instigated a Rough Order of Magnitude (ROM) request with Xoserve to provide associated costs and timescales for the implementation of both Modification Proposals. Transporters consider that should either Modification be directed for implementation by the Authority that implementation timescales would be in line with the Project Nexus system re-build schedule and as such would take advantage of any efficiencies this may offer.

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**Implementation:**

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

Implementation timescales have been discussed in the workgroup and due to the considerable impacts the implementation of either Modification would have on transporter central systems it is considered that an implementation in parallel with the Sites and Meters re-build programme would be appropriate. It is envisaged that Project Nexus would deliver a Sites and Meters re-build implementation throughout 2015 and that an appropriate date for implementation of either Modification would be a date in 2015 agreeable with the industry, preferably 1<sup>st</sup> April 2015. SGN consider that this timeframe would allow the most cost efficient method to implement changes and would also provide a notice period to gas Shippers and Suppliers to enable any consequential changes to supply contracts to be agreed.

**Legal Text:**

*Are you satisfied that the legal text will deliver the intent of each 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.