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: **ScottishPower Energy Management Ltd**

Representative: David McCrone

Date of Representation: 12 September 2011

Do you support or oppose implementation?

Comments

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

In our responses to DNPC03[1] and DNPC07[2] we set out our reasons for opposing the move to a 95/5 and 100/0 capacity/commodity split. We would therefore support the principle of the proposal to return to the previous charging arrangements but as a number of questions have been unanswered through the development of the proposal we are only able to provide comments. These are expanded upon below.

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

No.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

[1] http://www.gasgovernance.co.uk/sites/default/files/DNPC03ScottishPowerResponse.pdf

[2] http://www.gasgovernance.co.uk/sites/default/files/28%20May%202010%20Representation%20-%20Scottish%20Power.pdf

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

We are unsure from the proposal as to the justification behind focusing solely on the capacity/commodity split for SSP.

DNPC03 was not vetoed by Ofgem as they agreed with the argument that 95% of Use of System charges were unaffected by throughput and effectively fixed. As it was argued that these costs are consistent across LSP and SSP markets, it is unclear why the proposer is content to maintain the 95/5 split for LSP but amend it for SSP.

We are unable to see therefore how a different arrangement for each market can consistently reflect the costs incurred by the transporters.

While we appreciate the resource constraints that are placed upon smaller parties, and the alternatives provided by the Joint Office, we feel that this proposal would have benefited from further development with more direct input from the proposer.

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;

The proposer states that the change will facilitate competition by more closely aligning revenue and costs and removing potential barriers to market entry. It should be noted that this is for those in the SSP market only.

Impacts and Costs:

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

We do not believe that the modification proposal has been sufficiently developed in order for us to fully assess the impacts and costs but don't perceive these to be material.

Implementation:

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

We believe the earliest implementation date of 1 April 2013 provides sufficient lead-time.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

Yes, the legal text delivers the intent of the proposal.

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.

The proposer argues that the current arrangements do not allow them to align their costs with the revenue recovered, and as such, effectively sees Shippers trading at a loss during the summer months. Ofgem previously agreed with the transporter's argument that a 95/5 split brings more stability to Transporter charging when compared to a 50/50 charging regime. This proposal would however align settlement cost with customer billing through a 50/50 approach to capacity/commodity charging but would potentially introduce the unintended consequence of less stable Transporter prices year on year. We believe that there are more appropriate alternatives currently being considered by the industry that will allow shippers, operating in all markets, to more closely align their AQs, and therefore costs to revenue, whilst still maintaining the potential stability provided by the 95/5 capacity/commodity split.