

**SGN Statement on UNC Modification 0571 (*Application of Ratchets Charges to Class 1 Supply Points Only*) for Joint Office of Gas Transporters Modification Panel meeting - 16<sup>th</sup> February 2017.**

The introduction to Paragraph 17 of the SGN Safety Case sets out the following requirement;

*‘Particulars to demonstrate that the duty holder has established adequate arrangements to ensure that the gas he conveys will be at an adequate pressure when it leaves the part of the network used by him’.*

With this in mind we consider that there is an “indirect impact” on our safety case.

The existing ratchets regime forms a part of the “adequate arrangements” that are established and in place to ensure that, as far as is reasonable practicable, we are able to fulfil our obligations under the Safety Case; that is to operate our network safely, provide security of supply and also to invest efficiently.

Our rationale for taking this position is as follows: -

SGN has a set of arrangements in place to ensure that we ensure security of supply under 1:20 demand conditions. A key cornerstone of those arrangements are our network analysis models which are built to reflect existing pipe network, forecast peak demand for temperature sensitive loads and contractual levels of demand where available for specific Industrial and Commercial loads . These models are used to ensure sufficient capacity is in place prior to each winter period to meet peak demand conditions should they occur.

Where a customer intends to take an increased level of demand, key controls are in place to ensure the impact is assessed and where necessary investment identified to ensure adequate capacity is available to accommodate the proposed increase. The current ratchet process aids SGN with management of network capacity as it acts as a deterrent to customers who look to increase demand without complying with these controls.

If customers bypass these controls, taking significant increases in demand, and are situated on a part of the network particularly sensitive to load growth, there is a risk the network would have insufficient capacity and thus put at risk security of supply to the downstream network potentially affecting thousands of customers. This is a particular risk where the customer is situated on any system which is sensitive to increases in flow and supplies a disproportionate number of large industrial / commercial sites.

SGN’s Scotland Distribution Network demonstrates the challenge we have in maintaining a capacity constrained network that delivers the growing needs of customers whilst maintaining security of supply. The assertion that the removal of interruptible supply contracts is evidence of an unconstrained network is incorrect as is any assessment of demand at Distribution Network level. The mechanism to offer interruptible contracts on a commercial basis continues to exist, demonstrating the ongoing presence of constrained areas at local level within a Distribution Network. The absence of an integrated network and a growing concentration of large customers requires accurate network modelling of both temperature sensitive and contractual demand coupled with careful assessment of new requests for increased levels of demand in order to maintain a network which is both stable and efficient. Requirements of both general and specific load growth, as detailed in Gas

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Transporters Licence Condition 4b, must be balanced with the associated costs of delivering network reinforcement and ensuring that consumers are not funding a network in which capacity is over or under delivered.

SGN believe the removal of ratchet charges for Class 2 sites will send inaccurate market signals at a time when there is a high level of requests for additional capacity in increasingly constrained areas of our networks which risks undermining the safety and stability of the network and ultimately risking security of supply. SGN believe the only mitigation to this risk will be costly general reinforcement projects, likely to run in to millions of pounds, to be funded by UK consumers.