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SGN

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Date: 14 January 2025

Dear David,

### **Proposed Modifications to SGN's Connection Charging Methodology**

You submitted a revised copy of your Southern and Scotland Gas Distribution Networks (SGN) connection charging methodology (CCM) and a report to us<sup>1</sup> on 18 December 2024. In your report, you propose several modifications to the CCM including:

- (a) accepting adoption of above 7 Barg apparatus that is connected to the SGN network and that is not intended to be operated by another system operator, and setting out the relevant process and how SGN would charge for this work
- (b) documenting the possibility of gas entry to the SGN network being facilitated by the involvement of an Independent Gas Transporter (IGT), following the approval of [UNC0842](#)
- (c) removing wording dealing with charging for adoptable pressure regulating installation commissioning
- (d) several housekeeping updates

Standard Condition (SC) 4B of your Gas Transporter Licence states that we can give a direction in respect of any CCM modification that the modification shall not be made. On this occasion, we have decided to give a direction to you that modification (c) shall not be made. Our decision is explained below.

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<sup>1</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this document.

## Background

SC 4B of your Gas Transporter Licence sets out the obligations for you to put in place and maintain a CCM. In particular, SC 4B states that you must review the CCM at least once in every year and make modifications for the purpose of better achieving the relevant objectives<sup>2</sup>.

It also states that any modifications must be submitted to us alongside a report which sets them out, explains why they will better facilitate the relevant objectives<sup>3</sup>, and includes a timetable for implementing the changes. We have a 28-day period starting from the date this information is submitted to issue a direction to the licensee that the modifications shall not be made<sup>4</sup>.

The modifications you propose are described in more detail below.

## Modifications to SGN Connection Charging Methodology

### Modification (a): Adoption of above 7 Barg apparatus

You propose to revise section 3.16 ("Taking ownership of above 7 Barg apparatus", previously section 3.17) to introduce a mechanism for the adoption of above 7 Barg assets where a developer satisfies SGN that the assets will be safe and fit for purpose. You describe the relevant process and specifications that you will refer to in considering such adoption, with complementary changes also made in section 3.6. You also set out the basis on which you will levy a charge, including conducting audits to ensure that the assets to be adopted are fit for purpose and carrying out Final Connection work, which is cross referenced in section 3.6 ("Charging for minimum connections (above 7 Barg connections)").

You suggest that this modification would better achieve relevant objectives (b), (c), (d) and (e).

### Modification (b): Gas entry to the SGN network being facilitated by the involvement of an IGT

You propose to insert a new section 3.11.7 ("Gas entry via an Independent Transporters Pipeline") to document the possibility of gas entry to the SGN network being facilitated by the involvement of an IGT following the approval of UNC0842. You set out the relevant agreements that you will enter into with the relevant IGT and/or operator of the gas

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<sup>2</sup> SC 4B, paragraph 4

<sup>3</sup> The relevant objectives are set out in SC 4B, paragraph 5.

<sup>4</sup> SC 4B, paragraph 6

production facility, and the basis on which you will recover costs associated with the connection work. You also propose complementary changes in section 3.19 (“Entry and exit agreements”).

You suggest that this modification would better achieve relevant objective (e).

#### Modification (c): Charges for adoptable pressure regulating installations (PRIs)

You propose to remove wording dealing with charging for adoptable PRI commissioning previously at section 3.7 (“Charges for adoptable PRI (Pressure Regulating Installations) commissioning”). You mention in your report that you intend to retain control of the commissioning activity to maintain safety in the manner you consider is needed to appropriately deliver your safety case. You acknowledge the difference in approach between SGN and other GDNs, which may allow third parties whose PRIs will be adopted to commission those assets. You mention you do not wish to burden third parties with charges that may be inconsistent with other GDNs and propose to remove the specific charge for this service. You mention that by not charging the relevant customer directly, in practice this means that SGN will socialise the costs associated with commissioning adoptable PRIs across your customer base via transportation charges. You note that the costs involved in SGN providing these commissioning services are materially lower than the minimum amount needed to adjust the transportation charge at its most granular level of calculation.

You suggest that this modification would better achieve relevant objective (c).

#### Modification (d): Housekeeping updates

You propose to make several housekeeping changes to the CCM which intend to bring the CCM up to date and, in your opinion, have no material consequences for your customers. These changes include:

- adjusting section 3.11.1 (“System entry and storage connections - General”) to document the adoption of remotely operable valve and telemetry at the entry point where they comply with SGN requirements detailed in relevant specifications and Network Connection Agreement, to reflect an existing arrangement
- making clear in section 3.15 that SGN/SP/BIO/2 “Specification for Biomethane Network Entry Facility, Remotely Operable Valve and Controls” covers below 7 Barg entry connections
- adjusting the definition of ‘Fit For Purpose’ and adding several other definitions in Appendix A to enhance clarity

You suggest that these changes would better achieve relevant objective (a).

You propose that the above modifications will be implemented and take effect on 17 January 2025.

## **Our comments**

### Modification (a): Adoption of above 7 Barg apparatus

We do not object to this modification. We note that introducing a mechanism for the adoption of above 7 Barg apparatus would provide an additional route through which new gas entry and/or exit connections to the SGN network could be constructed by third parties. We consider that on the face of it there is an argument that this could facilitate competition in the supply of gas, as contemplated by relevant objective (b). Aside from that, we consider that the proposed charging methodology would result in charges which reflect the costs incurred by SGN to carry out this work, including conducting audits to ensure that the assets to be adopted are fit for purpose and the labour and apparatus required to establish the Final Connection between the adopted assets and the SGN network, thereby better achieving relevant objective (c). We consider that these charges are related to the cost of connecting a pipe supplied and laid by a third party to the SGN network, which falls within the scope of Section 10 of the Gas Act 1986.

### Modification (b): Gas entry to the SGN network being facilitated by the involvement of an IGT

We do not object to this modification. We note that the proposed new section and complementary changes to the CCM are in line with the requirements of UNC0842. We note that this UNC modification as well as the current modification to the CCM would support additional routes for gas to enter the SGN network via IGT networks, thereby removing a potential risk of undue discrimination against a person proposing to operate a pipeline system of this type and better achieving relevant objective (e).

### Modification (c): Charges for adoptable pressure regulating installations

How SGN ensure safe operation of your network is not a matter covered by SC 4B, as matters pertaining to SGN's safety case are governed by relevant health and safety legislation which is the responsibility of the Health and Safety Executive (HSE).

Our assessment therefore pertains only to the proposed removal of PRI commissioning charge and whether it would better achieve the relevant connection charging objectives. On this, we do not agree that this modification would better achieve relevant objective (c).

This objective requires licensees to set connection charges that reflect the costs incurred by them when operating their transportation business. Providing PRI commissioning service to a connecting party will incur costs by SGN, and we failed to see how removing the relevant charges currently levied on the connecting party to be instead subsidised by other end consumers is reasonable in the circumstances or would be consistent with this objective. We also failed to see how this modification would better achieve the other five relevant objectives.

#### *Ofgem's principal objective and statutory duties*

Ofgem's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes. We consider that there is a lack of justification in your report as to why it is appropriate to shift the commissioning costs that are currently borne by the connecting party to other consumers (e.g. how consumers as a whole could benefit from the proposed socialisation of PRI commissioning charge). We therefore consider that this modification will solely benefit the connecting party by lowering their costs, potentially to the detriment of consumers. In the circumstances, consistent with our principal objective, we direct that this modification shall not be made.

#### Modification (d): Housekeeping updates

We do not object to the housekeeping updates you propose to make to the CCM, which should improve its clarity.

### **Decision Notice**

In accordance with paragraph 6 of Standard Condition 4B of the Gas Transporter Licence, the Authority has decided to direct that the proposed changes in relation to the CCM modification regarding removing charges for adoptable PRIs commissioning, including but not limited to the proposed removal of section 3.7 from the SGN CCM, shall not be made. We have also decided not to make such a direction in respect of the other modifications to the CCM in your report and revised CCM.

Please note that this decision pertains only to those matters we are required to consider when deciding whether to approve proposed modifications to a connection charging methodology in accordance with SC 4B. For the avoidance of any doubt, nothing in this letter fetters our discretion to make any other decisions and take any other actions.

In the interests of transparency, we will publish this letter on our website.

Yours sincerely,

**William Duff**

**Head of Gas Systems and Operation**

Signed on behalf of the Authority and authorised for that purpose