



St Lawrence House
Station Approach
Horley, Surrey
RH6 9HJ
Tel: 01738 456 571
e-mail: malcolm.burns@sgn.co.uk

Ikbal Hussain
Ofgem
9 Millbank
London
SW1P 3GE

22 January 2013

Dear Ikbal,

Response to Notices under Section 23(2) of the Gas Act 1986 of proposed modifications to Standard, Special Standard and Special Conditions of the gas transporter licence

I am writing on behalf of Scotland Gas Networks plc and Southern Gas Networks plc in response to the above notices issued on 21 December 2012. This letter and its appendices constitute a Notice of Statutory Representation in respect of the proposed modifications of the Licence Conditions. I confirm that I am duly authorised to provide this representation on behalf of the above named licensees.

Our comments are provided in the attached appendices, Appendix 1 is a brief summary of the our main comments, Appendix 2 tabulates all of our comments on the Special Standard and Special Licence Conditions, Appendix 3 is word version of the draft special conditions with our tracked changes and Appendix 4 is a separate note on Special Condition 4G. Our comments highlight a number of errors that we believe to be either typographical or do not reflect the intent of the RIIO-GD1 Final Proposals published on 17 December 2012. Where the latter is the case, we have provided an explanation for our proposed changes.

We suggest that the proposed amendments are made prior to any licence modification taking effect. Please do not hesitate to contact me if you wish to discuss any of the points we have raised.

Yours sincerely,

Malcolm J. Burns

Senior Regulation Manager

24 hour gas escape number 0800 111 999*
*Calls will be recorded and may be monitored

Scotia Gas Networks Limited
Registered Office: St Lawrence House Station Approach Horley Surrey RH6 9HJ
Registered in England & Wales No. 04958135
www.sgn.co.uk

Appendix 1: Summary of main errors identified

1. There is no arrangements for the recovery of uncertain costs with regard to the 'one off' reopener for the Statutory (Scottish) Independent Undertakings laid out in Table 8.1 of the RIIO-GD1 Final Proposals – Finance and uncertainty supporting document. It is our view that a new licence condition (for Scotland Gas Networks only) is required to ensure that the intent of the Final Proposals can be implemented. We believe that such a licence condition could take a similar form to CRC18A of Scottish Hydro Electric Power Distribution's licence – Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland.

We need a clear commitment from Ofgem, in a separate letter of comfort, that such a condition will be developed;

2. We have provided a separate note (Appendix 4) on Special Condition 4G. We would urge Ofgem to consider the proposals put forward in this note with regard to all DN Operators submitting a common Methodology for Network Output Measures;
3. It is clear that the intent of Final Proposals (paras 3.23 to 3.42) is for the Broad Measure of Customer Satisfaction incentive to provide a maximum reward /penalty that is constant for each year of the price control. Special Licence Condition 1E does not do this; the formula at 1E.4 needs to be inflated by RPIAt-2, with the titles of Appendices 1 to 5 clearly stating the figures are in 2009/10 prices; and
4. The non-repex capitalisation rates in Special Condition 3B are in line with the FP Financial Model and the PCFM but are not in line with the Opex and Capex split based on the Totex in the 'Cost Efficiency' Final proposals document. It is essential that this mismatch is corrected using the Final Proposals Totex values. The correct values are 33.69% for Scotland Gas Networks & 28.94% for Southern Gas Networks.