



Making a positive difference
for energy consumers

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By email

Dear Paul

Southern Gas Networks and Scotland Gas Networks 4B Connection Charging Methodology

You submitted final revised copies of Southern Gas Networks and Scotland Gas Networks ("SGN") Connection Charging Methodology Statements (the "Statements") to us¹ on 28 April 2016. Your submission was preceded by other versions of your Standard Condition (SC) 4B statements.

You proposed a number of changes to the Statements including amending their structure, new text and revisions to improve clarity and readability, and to incorporate recent changes we made to the Fuel Poor Network Extension Scheme (FPNES).

SC 4B of your Gas Transporter Licence states that any modification to the Statements can be vetoed by us. On this occasion, we have decided not to veto the modifications. We have also identified further changes that could be made to the Statements. Our decision is explained below.

Background

SC 4B of your Gas Transporter Licence sets out the obligations for you to put in place and maintain a connection charging methodology. In particular, SC 4B states that you must review the connection charging methodology at least once in every year and make modifications in order to make sure it continues to achieve the relevant charging objectives.²

It also states that any modifications must be submitted to us alongside a report explaining why they will better facilitate the relevant charging objectives, including a timetable for implementing any changes. We have a 28 day period starting from the date this information is submitted to veto the proposed modifications, ie to issue a direction to the licensee that the modification shall not be made.³

Revisions to the connection charging methodologies

The changes you propose are described below.

¹ Expressions "we", "us", "Ofgem", "Authority" are used interchangeably in this letter. "Authority" means the Gas and Electricity Markets Authority and Ofgem means the Office of the Gas and Electricity Markets.

² SC 4B, paragraph 4

³ SC 4B, paragraph 6

You propose to make similar changes to both Statements, which have a comparable structure and content to each other. As a result, the changes explained below apply to both Statements unless otherwise stated.

There are a number of typographical changes intended to improve the clarity of the Statements. These are too numerous to list but do not significantly change the meaning or intent of the statements. You have also included a Table of Contents in both statements in order to make it easier to find information.

A new paragraph has been added to the introduction in the Statements, which states it is illegal for any work to be carried out on your network unless suitably qualified under the Gas Registration Scheme. The text contains a link where a list of registered providers can be found.

You have added a new paragraph 2.5 in the Statements, which describes 'P18 Pipelines'. These are pipelines you operate which require special care when being worked on. The text you have added makes this clear and states you should be notified if P18 pipelines need to be 'exposed'.

A new bullet point (numbered 6) has been added to paragraph 3.13 in both Statements. This describes the contribution that will be required from consumers likely to consume more than 75,000 therms of gas per annum when connecting to your network as part of an infill project. You have told us that this new text explains your existing connection arrangements when working with gas infill projects.

You have added new text to 'Appendix B – Additional points relating to capacity'. This text explains what happens if interactive requests for capacity are made and how that affects the quotes you provide to consumers. You have explained to us that this text reflects existing SGN arrangements.

A change has been made to the rate of return described in to 'Appendix E – Description of the Economic Test'. These changes state that you will use the Weighted Average Cost of Capital (WACC) figure (3.89%) contained in the latest RIIO-GD1 Price Control Financial Model as the rate of return for capitalising future income streams.

You have proposed updated text under Fuel Poor Network Extensions Schemes (the "Scheme"), sections 3.14 and Appendix F. You indicate that the modifications will revise these sections in line with the changes that have come into effect to on 1 April 2016. They will ensure that SGN makes it clear how they will implement the new requirements. We agree that the overall changes being proposed will bring the Statement in line with the new Scheme requirements, following our decision in September 2015.

Our comments

We appreciate your efforts to restructure the Statements and to include a contents page to improve navigation of these documents. Succinct and clearly written methodology statements benefit both us and network users by providing concise and understandable information.

We note you have correctly stated that the prevailing Typical Domestic Consumption Values (TDCV) will be used as part of the fuel poor test, see Appendix F. We note that in paragraph 2, you go into great detail on the figures relating to this calculation. As part of the new Scheme requirements, we have established a voucher calculator to assist Gas Distribution Networks (GDNs) in assessing how much assistance each eligible household can receive. There is no reference to the use of this calculator in the changes submitted to us. We consider it is important to reference this in the context of outlining the calculation of the fuel poor discount. The Statements require amendment to include this reference.

We note the detailed examples of how the fuel poor voucher is calculated from the fuel poor test. In reference to the voucher calculator above, we would assume that these examples have been calculated with reference to this voucher calculator. It would be useful to provide this clarity.

We note that you have correctly referenced the medium TDCV value as being used as a proxy for average gas consumption by the standard domestic customer. We consider that the heavy use of terminology in explaining the calculation for fuel poor discount (eg WACC etc), could be simplified to make this section more accessible. Clear and succinct charging statements benefit both us and network users.

Required amendments:

- 1) Reference to Ofgem's voucher calculator including as part of the examples in the appendix; and
- 2) Revision of readability in relation to calculation of fuel poor discount.

Our decision

In reviewing the changes you have submitted, we have referred to all versions of the statements that you have sent us. Your 28 April submission included the required report explaining the changes to your SC 4B statements, (see explanation above). Therefore, this was taken as SGN's complete submission, for the purposes of providing a consent within the 28 day requirement.

We have considered the modifications you propose to make to the Statements. We are satisfied, subject to the comments above, that they update the Statements to reflect the changes we have made to the Fuel Poor Network Extension Scheme and will improve its readability.

We expect you to make the further changes we have identified above within two weeks from the date of this letter.

Decision Notice

In accordance with Standard Condition 4B of the Gas Transporter Licence, we have decided not to veto this modification to the connection charging methodologies for Southern Gas Networks and Scotland Gas Networks, subject to the changes above, being made.

Yours sincerely

Andy Burgess
Associate Partner, Energy Systems Integration