

CODE MODIFICATION PROPOSAL No 0188
Introduction into the UNC of the Agency Charging Statement (“User Pays”)
Version 2.0

Date: 19/12/2007

Proposed Implementation Date: 01/04/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

The purpose of the proposal is to give effect to, and to identify purpose of, the Agency Charging Statement in the UNC. Invoices raised under these arrangements would have the same status as other transportation invoices raised under UNC TPD Section S* and shippers would be required pay these invoices in accordance with the code even though the revenues do not form part of a Transporter’s regulated revenue.

* It may be necessary to bill some of the User accession arrangements outside of Section S if a charge is constructed to reflect the work undertaken in the User set up process that does not result in the applicant becoming a User.

Proposed Business Rules

1 Status of the ACS in the UNC

It is proposed that the Agency Charging Statement (the “ACS”) is referenced in the UNC to give substance and effect to “User Pays” charging and invoicing.

In accordance with paragraphs 7 to 11 of Standard Special Condition A15 of a Gas Transporter's Licence, the Transporters will procure the preparation and publication of the ACS which will contain charges, and the methodology for deriving such charges, for certain Transporter Agency Activities, (“ACS services”). ACS services would comprise two types of arrangement which will be referred to in this proposal as “code ACS Services” and “non-code ACS Services”. A code service is an activity that is currently undertaken by a transporter and is defined in the UNC; the code ACS services are located in UNC TPD Sections M3 and V2.

(Note: The ACS will also contain methodologies and charges for non-code ACS Services. These are services provided by xoserve, either on behalf of transporters or in xoserve’s own right, that are scoped and defined outside of the UNC in a separate contractual arrangements. This proposal is only concerned with code ACS Services.)

2 Invoicing

Code ACS Services would be invoiced in accordance with UNC TPD Section S as a new charge item on the Ad-hoc invoice.

3 Code ACS Services

The code ACS services are as follows:

- **Must Reads**

The ACS Service is the provision of a Meter Read in accordance with UNC TPD Section M3.6.1. This charge associated with this ACS service would cease to be included in the Transportation Charging Statement. This service would be invoiced by the Transporter.

- **Shipper Agreed Reads**

The ACS Service is the receipt by the transporter of an Agreed Opening Meter Read submitted by a Proposing User in accordance with UNC TPD Section M3.8.7. This service would be invoiced by the Transporter.

- **User Admission**

The ACS Service is the completion activities listed in UNC TPD Section V2.1.2, resulting in an Applicant User becoming a User. This service would be invoiced by National Grid NTS.

Note: this charge may be split into two parts, one to reflect the IX connection costs, and one to reflect the rest of the User set up charge.

Consequences of non-implementation

In the current version of the UNC, Section M3 states that Must Reads charges are payable in accordance with the Transporter’s Transportation Statement. Under the User Pays proposals this would not be the case and by not amending the UNC we would not be consistent with the arrangements proposed to support new licence condition A15. As a very minimum this inconsistency needs to be removed, but it is our view that the ACS and the associated services/activities should be identified in the UNC for the purposes of clarity, given the fundamentally different treatment of xoserve costs, charges, the new charging statement and treatment of revenue.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable

- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

Consultation

- 2 **Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives**

Implementation of this proposal would fulfil an obligation placed on each Transporter by the proposed amendment of Standard Special Condition A15, due to take effect in April 2008 in conjunction with the ongoing development of the 2008-13 Gas Distribution Price Control Review, (“GDPCR”) (Now accepted -19/12/07).

Provided both are implemented, this proposal would compliment the proposed licence condition amendment and the associated downward adjustment of regulated revenue. Hence introduction of the ACS in the UNC complements the provisions of this new licence condition and, therefore, implementation will fulfil relevant objective SSCA11(c).

- 3 **The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

None

- 4 **The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

- a) **The implications for operation of the System:**

None

- b) **The development and capital cost and operating cost implications:**

It is not anticipated that any capital costs would be incurred. It is anticipated that some development costs would be incurred, and there would be some on-going operating costs associated with the delivery of the code ACS services framework.

- c) **Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

Development costs would be borne by the transporters. Ongoing operating costs associated with the delivery of each code ACS service would be included in the respective code ACS service charge.

- d) **The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

At present the costs associated with undertaking the ACS services are reflected in transportation charges and recovered as part of a Transporter’s regulated revenue.

While not a direct consequence of implementing this Modification Proposal under the User Pays arrangements proposed by the Authority in the discussions surrounding the funding of xoserve in the current round of GDPCR, it is proposed that costs for certain activities are removed from regulated revenue and so Transportation Charges, with revenue collected through User pays charges treated as excluded revenue. Consequently, Shippers will see Transportation Charges £2.83m lower than they would otherwise be, with new User Pays charges being developed to recover the regulated shortfall as excluded revenue.

The transporters would not see a change to their level of contractual risk since all money collected for Code ACS services under this arrangement would be passed to xoserve. Since money collected using this mechanism is classed as excluded revenue, “over or under recovery” would crystallise in xoserve’s profit and loss account

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

While no direct implications are anticipated as a result of implementing this Modification proposal, introduction of a User pays invoices would need to be supported by new management information. The implementation of the User pays concept would not require changes to core invoice system functionality, but revised processes and procedures would need to be implemented by xoserve. It would also be necessary to specify and give notice of invoice charge items.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Additional invoices and supporting information may impose an additional administrative burden on Users.

b) The development and capital cost and operating cost implications

It is not anticipated there would be any development costs associated with the introduction of these code ACS services. Users may face additional

operating costs associated with the management of additional invoice items.

c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

Under this proposal, the Code ACS Services would be delivered to the under the same terms and condition as at present. The reference to the ACS in the code simply serves to provide a mechanism for charging for these “service” lines. Therefore, the level of contractual risk for Users is unchanged.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No such implications have been identified

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

The introduction of User Pays on 1st April 2008 will become a regulatory obligation should a proposed amendment to the transporters licence, (specifically SSC A15), be accepted during the formal consultation of new licence conditions developed to complement the GDPCR. The introduction of User pays into the code for code ACS services, together with new contracting arrangements for non-code services, provides xoserve with a revised income stream and new obligations. These matters would need to be dealt with by a revision to the ASA.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

- Recognises the principle of User Pays charges within the UNC.
- Removed redundant provisions associated with Must Read charges from the UNC, thereby helping to avoid any confusion which might arise as to the basis of these charges with effect from 01 April 2008.
- For the selected service lines, Users would only pay for the number of times they use a service and the costs associated with providing those service lines would be targeted on those placing the greatest demand.

Disadvantages

- Additional invoices and supporting information may impose an additional administrative burden on Users.

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

No representations received to date.

12 Detail of all other representations received and considered by the Proposer

None

13 Any other matter the Proposer considers needs to be addressed

None

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

This modification proposal should be implemented to coincide with the introduction of the User Pays principle and the ACS on 1st April 2008.

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B1.8, M3, and V2 (provisional view)

Proposer's Representative

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Proposer

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