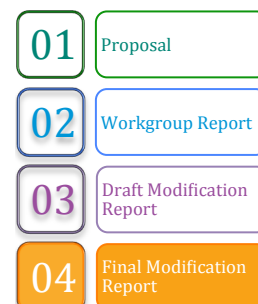


Stage 04: Final Modification Report

What stage is this document in the process?

0353:

Population and Maintenance of the Market Sector Code within the Supply Point Register



Implementation of this Modification Proposal would require Shippers to populate the Market Sector Code field within the Supply Point register for all their Supply Points and to maintain the accuracy of it. The Market Sector Code is used to identify whether the Supply Point is classified as “domestic” or “non-domestic” as defined within Supplier, Shipper and Transporter licences.



Panel recommendation due on 17 March 2011



Panel recommendation due on 17 March 2011



Medium Impact:

Shippers



Low Impact:

Transporter Agent (Xoserve)

0353

Final Modification Report

07 March 2011

Version 1.0

Page 1 of 22

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Contents

1	Summary
2	Why Change?
3	Solution
4	Relevant Objectives
5	Impacts and Costs
6	Implementation
7	The Case for Change
8	Legal Text
9	Consultation Responses
10	Panel Discussions
11	Recommendation

About this document:

This document is a Final Modification Report, presented to the Panel on 17 March 2011. The Authority will consider the Panel's Recommendation and decide whether or not this change should be made.



Any questions?

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0121 623 2569

0353

Final Modification Report

07 March 2011

Version 1.0

Page 2 of 22

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1 Summary

Why Change?

Market Sector Code information is not currently fully populated and, where it is populated, there are questions over the accuracy of the data. The industry undertakes numerous processes that could (or should) rely on the accuracy of this data.

There are currently no obligations on Shippers to provide this data to the central UK Link Systems (in particular the Supply Point Register) or for them to maintain the accuracy of this data.

Approximately 28.9% of all Supply Points within the Supply Point Register have blank MSC entries. This equates to approximately 6,200,000 Supply Points¹.

Solution

This Modification Proposal seeks to place a new obligation within the UNC for Shippers to populate all MSC values for Supply Points where they are the relevant Shipper and for that data to be maintained.

If the Modification Proposal were to be implemented there would be a transitional phase of 6 months to allow for the timely update of blank values, or to correct any existing values, using existing functionality.

The Modification Proposal will also introduce a 'back-stop' service that will be provided by the Transporter Agency (xoserve) to populate any blank values that remain once the transition phase has concluded.

Impacts & Costs

Market Sector Code values can be update using existing UK Link functionality so Shippers may not need to incur development costs to comply with the obligations that implementation of this Modification Proposal would place upon them.

A systems solution to populate blank MSC values on behalf of the Shippers would cost at least £81k but no more than £156k.

These costs would be recovered through User Pays Charges

Implementation

This Modification Proposal can be implemented promptly following a direction from Ofgem.

The Case for Change

Implementation of this Modification Proposal will facilitate the majority of relevant objectives and assist in licence and regulatory compliance.

Recommendation

The Proposer invites the Panel to determine that this Modification Proposal progresses to Consultation.

¹ As of September 2010 (see detail in Section 2)

² UK Link file formats can be found in the 'UK Link Documentation' section on xoserve's website (www.xoserve.com)

³ <http://www.gasgovernance.co.uk/sites/default/files/MarketDifferentiationMSFAnalysis.ppt>

⁴ <http://www.gasgovernance.co.uk/sites/default/files/MarketDiffinLicencesandContractsV3.xls>

2 Why Change?

The Supply Point Register holds a value against each Supply Point called the Market Sector Code (MSC). The MSC is used to reflect whether a site is “domestic” or “non-domestic”. Although not specifically defined within the UNC, the common definition used for the terms domestic and non-domestic is based on the definition for ‘domestic premise’ that appear in the Transporter, Shipper and Supplier licence (and in numerous other places).

They are most commonly defined using the following terminology:

- Domestic premise means premises at which a supply is taken wholly or mainly for domestic purposes;
- Non-domestic premise is a premise that is not a domestic premise

The Market Sector Code can hold two values (or be blank):

- “D” is used to represent a domestic Supply Point; and
- “I” is used to represent an industrial / commercial Supply Point (i.e. non-domestic)

Population of the Market Sector Code has only been mandatory on confirmations since 2001. Any Supply Point that has not been confirmed since this became mandatory (e.g. where a customer has not switched Suppliers/Shippers since prior to 2001) the MSC is likely to be blank. Where the MSC is populated there is no requirement within the UNC for this to be accurate or to be maintained. For example, a residential (domestic) property could be identified as a commercial (non-domestic) property. Also, if a property changes use (e.g. goes from domestic to non-domestic or vice versa) there is no requirement for the MSC to be updated.

The MSC can be updated by Shippers without having to use the confirmation process; this can be done using UK Link file format known as the T73 File (Market Sector Code Change Request) which has a corresponding response file (The T74 File)². There have been efforts made by Shippers over recent years to populate the MSC for non-domestic Supply Points with an assumption that any blank entries would be domestic. Unfortunately the accuracy of the data, without any UNC obligations, cannot be guaranteed and therefore the MSC cannot be utilised for industry processes.

Previously analysis carried out to assist with discussions during Distribution Workstream and the Project Nexus Market Differentiation sessions³ showed that, as of August 2009, there were approximately 7,000,000 blank MSC entries. This accounted for approximately 32.8% of all Supply Points. More recent analysis carried out in September 2010 has shown that the number of blank MSC entries has reduced to approximately 28.9% of all Supply Points. At this rate, of 0.3% per month, we would remain with blank MSC records until at least September 2018 (and even then there would be no requirement for the data to be populated accurately or to be maintained).

Where can I find electronic versions of the Shipper, Supplier and Transporter licences?

Electronic copies of all Supplier, Shipper and Transporter licences can be found in Ofgem’s Electronic Public Register on their website
<http://epr.ofgem.gov.uk/>

0353

Final Modification Report

07 March 2011

Version 1.0

Page 4 of 22

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² UK Link file formats can be found in the ‘UK Link Documentation’ section on xoserve’s website (www.xoserve.com)

³ <http://www.gasgovernance.co.uk/sites/default/files/MarketDifferentiationMSFAnalysis.ppt>

A breakdown of the analysis carried out in September 2010 is shown below in the same format as in previous industry discussions (see links below).

September 2010 Analysis

This analysis shows the following:

- The number of populated MSC entries;
- The number of blank MSC entries;
- The split between the Smaller Supply Point (SSP) market and the Larger Supply Point (LSP) market; and
- The AQ associated with each category

Small Supply Points (SSP)			
Market Sector Code			Total
I&C (I)	Domestic (D)	Other (Blank)	
370,579	14,683,913	6,213,616	21,268,110

Large Supply Points (LSP)			
Market Sector Code			Total
I&C (I)	Domestic (D)	Other (Blank)	
250,503	36,689	17,354	304,546

		Market Sector Flag							
		Total Supply Points	I&C (I)		Domestic (D)		Blank		
Annual Quantity (AQ)	LSP	304,546	250,503	82.3%	36,689	12.0%	17,354	5.7%	
		1.4%	40.3%		0.2%		0.3%		
		Cumulative AQ	215,043,206,039 kWh		5,839,117,489 kWh		8,669,898,061 kWh		
	SSP	21,266,110	370,579	1.7%	14,683,913	69.0%	6,213,618	29.2%	
		98.5%	59.7%		99.8%		99.7%		
		Cumulative AQ	9,680,617,144 kWh		250,273,444,776 kWh		102,600,812,758 kWh		
	Total SP's	21,572,656	621,082	2.9%	14,720,602	68.2%	6,230,972	28.9%	

Licences, legislation and UNC

The terms 'domestic' and 'non-domestic' feature in the Supplier, Shipper and Transporter licences as well as numerous pieces of primary and secondary legislation. In order for data within the Supply Point Register to be used for any purpose connected to these articles the population and accuracy of the MSC is essential.

Gas Supply Licence

Standard Condition 17 (SLC17) ("Mandatory exchange of information") requires the relevant Supplier at a premise must inform the relevant gas Shipper whether the premise is a domestic or non-domestic premise. The licence also requires the Supplier to inform the Shipper if the premise changes from domestic to non-domestic or vice-versa.

Where the Supplier is the Shipper the information above must be passed on to the relevant Gas Transporter.

There is no equivalent requirement within the Gas Shipper licence which means, where the Supplier is independent from the Shipper and has passed on such information, there is no requirement for Shippers to pass this information on to the Gas Transporter. Even where the Supplier is the Shipper this licence condition is prospective and therefore places no requirements on the Supplier to pass on this information for sites within its ownership prior to 2001 (when MSC became mandatory



What are Smaller Supply Points (SSP) and Larger Supply Points (LSP)?

These are based on the Annual Quantity (AQ) of the Supply Point. SSPs have an AQ no greater than 73,200kWh whereas LSPs have an AQ greater than 73,200 kWh. These definitions can be found in UNC TPD A 4.2.2

Can we not just use SSP and LSP as an indication of whether a Supply Point is domestic or non-domestic?

No. Although the vast majority of SSPs are domestic this categorisation would significantly under estimate the number of non-domestic Supply Points. There are actually more non-domestic Supply Points within the SSP sector than in the LSP sector.

0353

Final Modification Report

07 March 2011

Version 1.0

Page 5 of 22

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on Confirmations). Implementation of this Modification Proposal would bridge this gap in the Supplier / Shipper licence.

Other References

As mentioned above, the categorisation of domestic and non-domestic, and also the use of AQ thresholds, appear in various other documents. A comprehensive summary of some of these documents was presented at the Project Nexus Market Differentiation work group meeting held on 10th September 2009⁴ and includes the following:

The Gas Act 1986/1995

- Extensive use of AQ thresholds for various purposes and references to 'domestic supply licence'.

Gas Transporter licence

- Uses both AQ threshold (73,200kWh) and type of usage for definition of domestic customer and domestic premise.

Gas Shipper Licence

- Various references to domestic / non-domestic all based upon 'usage' type.

The Gas (Standards of Performance) Regulations 2005 (& 2008a)

- Various references to domestic / non-domestic all based upon 'usage' type.

The Uniform Network Code (UNC) Transportation Principal Document (TPD)

- Contains references to domestic customers and to 'used for domestic purposes' but does not contain an actual definition of either domestic or non-domestic.

The Gas and Electricity (Consumer Complaints Handling Standards) Regs 2008

- References to domestic / non-domestic all based upon 'usage' type.

The Supply Point Administration Agreement (SPAA)

- References to domestic / non-domestic all based upon 'usage' type.

The Consumers, Estate Agents and Redress Act 2007

- References to domestic / non-domestic all based upon 'usage' type. The Consumer Complaints Handling Standards Regulations 2008 also include definitions of a micro business consumer. This is defined as non-domestic (usage based) as well as a further categorisation that includes an AQ threshold of 200,000kWh as well as thresholds on number of employees and annual turnover.

The Electricity & Gas (Carbon Emissions Reduction) Order 2008

- Various references to domestic / non-domestic all based upon 'usage' type.

Previous Discussions



Where can I find more information and copies of primary and secondary legislation?

All the 'Acts' and 'Regulations mentioned within this Modification Proposal can be found on the following websites:

1) The Office of Public Sector Information
<http://www.opsi.gov.uk/legislation/uk.htm>

2) HM Government / The National Archives
<http://www.legislation.gov.uk/>

3) The UK Statute Law Database
<http://www.statutelaw.gov.uk/>

⁴ <http://www.gasgovernance.co.uk/sites/default/files/MarketDiffinLicencesandContractsV3.xls>

The basis of this Modification Proposal, and the analysis referred to above, has been discussed at previous meetings of the UNC Distribution Workstream. The presentation given at the February 2010 Distribution Workstream was an updated version of the one given in September 2009; this can be found on the Joint Office website⁵.

Market Differentiation

Accurate population, and ongoing maintenance, of the MSC for a Supply Point will allow a greater level of market differentiation. Currently, with so many blank and potential inaccurate entries it is not possible to use the MSC for determining domestic and non-domestic customer splits. Implementation of this Modification Proposal would allow for this.

In turn, with populated accurate MSC entries it will be possible to derive new market sectors, for example, applying AQ thresholds and combining with non-domestic flagged sites could determine 'small' or 'large' business customers.

Facilitating Industry Change

Other industry initiatives and UNC Modification Proposals have identified a reliance on the population and accuracy of MSC entries. For example, there have recently been issues with Modification Proposals that allow the reporting of information pertaining to a Supply Point being available to a Shipper other than the relevant Shipper. This has led to concerns over potential breaches of the Data Protection Act that would have been resolved if there was a clear and reliable distinction between domestic and non-domestic sites.

Other major industry changes, such as the Smart Metering Implementation Programme (SMIP), also make distinctions between domestic and non-domestic customers and the implementation of this Proposal can only assist with such matters.

Useful Information

Market Differentiation has been discussed as a separate work group as part of the Project Nexus requirements gathering phase. More information about Project Nexus and the all the different workgroups can be found on the xoserve and Joint Office websites:

<http://www.gasgovernance.co.uk/nexus>

http://www.xoserve.com/nexus_home.asp

A full list of all UNC Modification Proposals can be found in the Modification Proposal Register on the Joint Office website:

<http://www.gasgovernance.co.uk/mods>

⁵ <http://www.gasgovernance.co.uk/sites/default/files/Draft%20Modification%20Proposal%20-%20Population%20and%20maintenance%20of%20MSC%20updated.ppt>

3 Solution

This Modification Proposal has 3 component parts:

1 - Code Obligations

Implementation of this Modification Proposal would introduce within the UNC an obligation on Shipper Users to ensure that the MSC field within the Supply Point Register, for all Supply Points where they are the Registered User, is populated, accurate and maintained (i.e. updated as and when necessary and as soon as reasonably practicable). The definition of domestic and non-domestic premises will also be introduced in to the UNC and will be consistent with the usage based definitions that appear in the Supplier, Shipper and Transporter licences⁶ (i.e. wholly or mainly used for domestic / non-domestic purposes).

The process for populating and updating the MSC value will remain unchanged. MSC values are mandatory on all confirmations / reconfirmations and the T73 file can be used at any other time.

2 – Transitional Arrangements

Implementation of this Modification Proposal would introduce a 'transition period' for the introduction of the obligation described above. The transition period would allow for the Modification Proposal to be implemented but the obligation would not become effective until the transition period had concluded. The transition period will allow Shippers sufficient opportunity to populate any blank MSC entries within their portfolio and to correct any MSC entries that are currently populated but are incorrect.

The transition period will be for a period of 6 (six) months commencing from the implementation date. Shippers would be expected to use the existing T73 UK Link file to populate and/or update MSC entries during the transition period.

3 – Transporter Backstop User Pays Service

The creation of a User Pays Service to facilitate the population, by the Transporter Agency, of any blank MSC entries that exist once the transition period has concluded. The relevant Shipper will need to confirm that any blank entries at the end of the transition period can be populated, by the Transporter Agency, on the following basis:

- Smaller Supply Points (SSP) (AQ <73,200kWh) will be populated as domestic ("D")
- Larger Supply Points (LSP) (AQ >73,200kWh) will be populated as "Industrial / Commercial" ("I")

If the Shipper is unable to confirm that all blank entries can be populated in this manner they will need to indicate which blank entries these default rules do not apply to (i.e. where there should be a "D" against an LSP or an "I" against an SSP).

Will these transitional arrangements appear in the UNC and if so where?

Whenever a Modification Proposal introduces text that is time limited (e.g. transitional) they do not appear in the same part of the UNC as any enduring arrangements.

For this Modification Proposal, the enduring obligation will be within the UNC Transportation Principal Document (TPD) whereas the transitional arrangements will be in Part IIC ("Transition Rules") of the UNC Transition Document.

The latest version can be found on the Joint Office website:
www.gasgovernance.co.uk/general

⁶ On the 15th December 2011 Ofgem issued an open letter (155/10 "Classification of premises for the purposes of the standard conditions of the gas supply licence". The letter seeks views on whether the supply licence definition should be amended. This Modification Proposal is based on the existing definitions within the licences. If any of these were to change the impact, if any, would not to be addressed separately.

Once the Shipper has corroborated this information they will have deemed to have complied with their (new) UNC obligation to populate all MSC entries for each Supply Point where they are the relevant Shipper.

From the conclusion of the transition period, and unless the relevant Shipper has indicated otherwise, blank MSC entries will be deemed to be populated as above prior to them being populated by the Transporter Agency (i.e. it will be possible to utilise blank entries for reporting purposes).

The method and timescales involved with the populating of blank MSC values by the Transporter will depend on the number of blank entries that remain at the end of the transition period. As this would be carried out as a User Pays Service, a Rough Order of Magnitude (ROM) has been prepared based on a significant number of blank entries remaining and requiring population. This is seen as a worst case scenario and, if all blank MSC entries are populated by the relevant Shipper prior to this, there would be no need for a User Pays Service and therefore no User Pays Charges would be levied.

Further details of the ROM can be found below in Section 5 ("Impacts and Costs").

Blank MSC Portfolio Reporting

To assist Shippers with the process it is also proposed that each Shipper is provided with reports showing the Supply Points within their ownership that have blank MSC entries. It is proposed that such reports are issued:

1. Prior to the commencement of the transition period;
2. 3 (three) months in to the transition period;
3. 1 month prior to the end of the transition period; and
4. Immediately after the transition period has finished

These reports will be provided at no cost to the Shipper.

Any additional reporting or assistance from the Transporter Agency may be available on a bilateral basis (see the information panel to the right).



How can I contact the Transporter Agency?

xoserve are the existing Transporter Agent and can be contacted in various ways. For more information on how to contact them, the work that they carry out and to find out what they could do to assist you, please go to their website:

www.xoserve.com

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives a, b, c, d, and f.**



Why do we care about these relevant objectives, is it not obvious that this is a sensible thing to do without having to justify it against these measures?

Although it seems obvious that implementation of this Modification Proposal would bring benefits to the industry it is important that we look to see how it impacts on the relevant objectives, this is an important part of the UNC modification process.

It is a requirement of the gas transporters licence that the UNC Modification Rules include this measure and this will also be looked at by the Authority when they make their decision on whether to direct the transporters to implement it or not.

Proposer's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Yes
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	Yes
c) Efficient discharge of the licensee's obligations.	Yes
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Yes
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

Achievement of relevant objective (a) “Efficient and economic operation of the pipe-line system”

Having greater certainty of the usage types of Supply Points (in aggregate) on the pipe-line system may allow for planning processes, profiles and therefore diurnal storage requirements to be improved. In turn this could lead to optimising parts of the network based on these improvements and this will therefore be a more economic and efficient way of operating the pipe-line system. Any improvements are likely to be only marginal and would not justify the implementation of this Modification Proposal in isolation.

Having greater certainty of whether a premises is domestic or non-domestic may also lead to benefits in operation of the pipe-line system during planned works or in an emergency situation (e.g. Local Gas Supply Emergency). Knowing the number of and location of domestic / non-domestic premises could allow prioritisation of restoration depending on factors such as day and time and would therefore lead to greater efficiencies in carrying out such operations (and therefore furthering achievement of this relevant objective).

Achievement of relevant objective (b)(ii) “Coordinated, efficient and economic operation of the pipe-line system of one or more relevant gas transporters”

Any benefits that arise from the implementation of this Modification Proposal in relation to planning processes (as mentioned above) may also lead to improvements in the accuracy of a Gas Distribution Network’s requirements for both NTS Exit (Flat) Capacity and NTS Exit (Flex) Capacity from the upstream Transporter (in this case NG NTS). By improving the accuracy of these requirements it will allow for the NTS to be operated in a more economic and efficient manner hence furthering the achievement of this relevant objective.

Achievement of relevant objective (c) “Securing of effective competition efficient discharge of the licensee’s obligations”

There are various references to domestic and non-domestic customers/premises within the Transporter licence. Without populated and accurate MSC fields within the Supply Point Register the transporters’ ability to report or act in accordance with the licence could be hampered. Where the MSC cannot be relied upon there is often additional contact required with any relevant customer, or the relevant Shipper, to determine whether they should be categorised as domestic or non-domestic. This additional contact (phone calls, letters, physical visit etc.) is not an efficient way for transporters to discharge licence obligations. Implementation of this Modification Proposal would, by placing obligations on Shippers, ensure that MSC values are populated and maintained, both those parties with easier access to the correct data, and could therefore be relied upon by Transporters and therefore will facilitate the achievement of this relevant objective.

Achievement of relevant objective (d)(i)&(ii) “Securing of effective competition between relevant Shippers and Suppliers”

0353

Final Modification Report

07 March 2011

Version 1.0

Page 11 of 22

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The population and maintenance of MSC values within the Supply Point Register will allow for accurate differentiation between Shipper/Supplier portfolio on a domestic and non-domestic basis. Existing UNC processes, such as the process for amending erroneous prospective domestic AQs (UNC TPD G 1.6.13(c)(i)) are based on domestic and non-domestic definitions and ensuring the accuracy of the MSC values will allow this differentiation to take place. In this example, this would lead to more accurate AQs and therefore an improvement in allocation. More accurate allocation ensures that cost targeting is improvement promotes effective competition between relevant Shippers.

Populated and accurate MSC values within the Supply Point Register will allow for new processes to be developed that utilise this market differentiation and could be expanded to further differentiate between market sectors (e.g. small non-domestics). In turn this should allow for markets to be treated differently for certain processes and therefore allow for greater competition between relevant Shippers and Suppliers which will further the achievement of this relevant objective.

Although EDF Energy agrees that accurate energy allocation should have a positive impact on allocation; they do not believe that any of the allocation arrangements are impacted by population of blank Market Sector Codes (MSCs). Although UNC TPD G 1.6.13(c)(i) does allow the correction of erroneous AQs for domestic premises, this can only be enacted "where a change of gas supplier has occurred". UNC Proposal 0353 recognises that population of the MSC is a requirement of a supply point registration, and so implementation of this proposal will have no impact on the allocation of energy or the correction of erroneous AQs.

Achievement of relevant objective (f) "*Promotion of efficiency in the implementation and administration of the Code*"

The population and maintenance of MSC values within the Supply Point Register will allow for all UNC processes that utilise the differentiation between domestic and non-domestic Supply Points to be carried out efficiently and accurately. This will also allow any future, or existing, Modification Proposal that relies on such differentiation to be implemented in an efficient manner by the Transporters⁷. Therefore the ability to differentiate between domestic and non-domestic Supply Points, based on the populated and accurate MSC values, will better facilitate the achievement of this relevant objective.

⁷ This was an issue with Modification Proposal 0253 ("*Facilitating a Supply Point Enquiry Service for Large Supply Points*") that was rejected by Ofgem. One of the concerns with the Modification Proposal was that the Transporters would not be able to deliver the proposed service due to not being able to identify domestic LSP Supply Points and therefore unable to manage restrictions placed upon them through the Data Protection Act. The decision letter for Modification Proposal 0253 can be found on the Joint Office website: <http://www.gasgovernance.co.uk/0253>

5 Impacts and Costs

User Pays

This Modification Proposal has been raised as a User Pays Modification Proposal as it may lead to the creation of User Pays Services and User Pays Charges.

Once the transition period has finished, and if there are any remaining blank MSC entries, the Transporters' Agency will populate these entries as described above in Section 3 (Solution) under the sub-heading "3 – Transporter Backstop User Pays Service". This will be a User Pays Service with a corresponding User Pays Charge. The method of population will depend on the number of blank MSC entries (see details below).

If there are no blank MSC entries once the transition period has concluded then there will be no need for a User Pays Service (or any User Pays Charges).

Costs

Proposed Cost splits	
Development Costs	Operational Costs
100% Shipper allocation	100% Shipper allocation
0% Transporter Allocation	0% Transporter Allocation

The cost split between Shippers and Transporters is not as the User Pays Guidelines Document suggests they could be. The reason for deviating from the Guidelines is that whether Shippers use the back-stop service, and incur User Pays Charges, is entirely in their hands. The functionality to populate (or correct) MSV values already exists and it therefore seems reasonable for those Shippers that choose to use the back-stop process should incur 100% of the costs.

Shipper Cost Allocation

The proposed split between Shippers will be based on their individual share of the remaining blank MSC entries. For example, if Shipper A has 60% of the remaining blank MSC entries then they will pay 60% of the total User Pay Charges.

ROM Analysis

xoserve have completed a ROM analysis based on a system solution that would be required if there were a significant number of blank MSC values at the end of the transition period.

The cost of this solution would be at least £81k but probably no more than £156k.

Due to the one-off nature of this solution there would be no ongoing operation costs.

The delivery timescales (includes full analysis, development and implementation) would take at least 25 weeks but no more than 44 weeks.

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:
<http://www.gasgovernance.com/networkcodearchive/551-575/>

As mentioned above, if there are no blank MSC entries at the end of transition period then there will be no User Pays Charges (as the User Pays Service will not be required).

If there a small number of blank MSC values remaining at the end of the transition period there may be scope for a less complex solution that could be used. This would only be pursued if the overall costs of doing so were less than the system solution above.

Scottish Power suggest that given the indicative costs it may be possible that a Shipper/Supplier will have such a relatively small number of MSC values remaining that the cost of invoicing through User Pays exceeds that of xoserve actually populating the MSC, that a de minimus value is considered under which Shippers would not incur any User Pays charges.

User Pays Charge examples

The examples below are based on hypothetical figures and take a high end development costs from the ROM analysis

Example 1	
Cost of system solution	[£150k]
Remaining Blank MSC values	7,000,000
User Pays Charge per blank MSC	£0.02 per blank MSC

Example 2	
Cost of system solution	[£150k]
Remaining Blank MSC values	150,000
User Pays Charge per blank MSC	£1.00 per blank MSC

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none">There are no proposed changes to UK Link file formats or data flows. A system solution may be required to carry out MSC updates on behalf of Shippers if they are not populated during the Transition Period.
Operational Processes	<ul style="list-style-type: none">Updates carried out using the T73 file process will not impact on operational processes

User Pays implications	<ul style="list-style-type: none"> • See section above
------------------------	---

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> • Shippers wishing to populate blank MSC values will need to utilise the existing T73 functionality.
Development, capital and operating costs	<ul style="list-style-type: none"> • If Shippers do not currently use the T73 file they may incur costs in developing the functionality or costs in creating such updates.
Contractual risks	<ul style="list-style-type: none"> • Failure to update MSC values or confirm correct values by the end of the Transition Period could place Shippers in breach of UNC obligations (those created by Implementation of this Modification Proposal)
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • As above, failure to act in accordance with the obligations created by Implementation of this Modification Proposal could place Shippers/Suppliers in breach of their regulatory and licence requirements.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> • No Impact
Development, capital and operating costs	<ul style="list-style-type: none"> • Any such costs will be recharged to Shippers (as above) via User Pays Charges
Recovery of costs	<ul style="list-style-type: none"> • User Pays Charges will be used for cost recovery
Price regulation	<ul style="list-style-type: none"> • No impact
Contractual risks	<ul style="list-style-type: none"> • Transporters may have reduced contractual risk under the UNC as they will have the ability to identify domestic and non-domestic customers based on the populated values.

Impact on Transporters	
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Implementation of this Modification Proposal would allow Transporters to rely on MSC data where they are required by licence or regulation to differentiate between domestic and non-domestic customers
Standards of service	<ul style="list-style-type: none"> Transporters will be able to correctly identify the appropriate payments to domestic customers and non-domestic customers as and when required (e.g. for Failure to Supply Gas payments)

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> No Impact
UNC Committees	<ul style="list-style-type: none"> No Impact
General administration	<ul style="list-style-type: none"> No Impact

Impact on Code	
Code section	Potential impact
UNC TPD	Introduction of general obligation on Shippers to populate and maintain the MSC value for relevant Supply Points
UNC Part IIC – Transitional Rules	Introduction of the transitional phase to allow Shipper Users the opportunity to populate or correct MSC values prior to the introduction of the obligation referred to above.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	No Impact
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	No Impact
Storage Connection Agreement (TPD R1.3.1)	No Impact
UK Link Manual (TPD U1.4)	No Impact

Impact on UNC Related Documents and Other Referenced Documents	
Network Code Operations Reporting Manual (TPD V12)	No Impact
Network Code Validation Rules (TPD V12)	No Impact
ECQ Methodology (TPD V12)	No Impact
Measurement Error Notification Guidelines (TPD V12)	No Impact
Energy Balancing Credit Rules (TPD X2.1)	No Impact
Uniform Network Code Standards of Service (Various)	No Impact

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	No Impact
Gas Transporter Licence	No Impact

Other Impacts	
Item impacted	Potential impact
Security of Supply	No Impact
Operation of the Total System	No Impact
Industry fragmentation	No Impact
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	No Impact

6 Implementation

This Modification Proposal can be implemented promptly following a direction from Ofgem.

No system development is required to implement this Modification Proposal as a system solution will only be required following the conclusion of the transitional period and if there are significant number of blank MSC values remaining.

Although the Implementation would introduce enduring obligations on Shippers to populate and maintain MSC values, this would not take effect until after the 6 month transitional period had concluded.

SSE considers that an additional six months may be needed before the transition period were to begin for the population of the MSC field, whereas RWE npower would like to see a lead time of approximately three months prior to implementation.

Scottish Power note that shippers are to be provided with a six month transitional period in which to populate the MSC, however they question if this is justified or that it would result in significant improvements. They suggest that a reduced transitional period is recommended in order to expedite resolution of the issue. They acknowledge that with any time limited transitional period there may be a perverse incentive on the Shipper/Supplier to make an arbitrary decision about a supply point's MSC rather than complete a full investigation in order to avoid incurring User Pays charges for any MSCs which remain blank. They believe there is a balance to be struck between ensuring a swift but accurate resolution and this should be considered when developing any solution with it being crucial that sufficient controls are in place.

7 The Case for Change

The Proposer has not identified any additional advantages to those detailed above in Section 2.

8 Legal Text

Wales & West Utilities provided draft legal text during the consultation period, which is available at www.gasgovernance.co.uk/0353.

EDF Energy notes that the draft legal text, in particular Section G 1.9.10, will create dual governance for Suppliers. They believe that this should be amended so that it does not apply to Shippers who also hold a Supply Licence. They also consider that there is an error in the text with regards to the amendments suggested to Section G Annex G1 Paragraph 1 sub-paragraph (x). Currently this reads: "change in supplier where there is no change of Registered User in respect of a Supply Point." The draft legal text proposes to amend this to: "change in the Market Sector Code;" This is replicated in the new sub-paragraph (xi), and so we believe that this is erroneous and the sub-paragraph (x) should read: "change in supplier where there is no change of Registered User in respect of a Supply Point;"

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Supports
EDF Energy	Qualified Support
National Grid Distribution	Supports
Northern Gas Networks	Supports
RWE Npower	Qualified Support
Scottish Power	Qualified Support
SSE	Comments
Wales & West Utilities	Supports

Of the eight representations received four supported implementation, three offered qualified support and one provided comments

Summary Comments

British Gas considers that by providing the market with visibility of which sites are domestic and which are non-domestic, service providers, including the Network Owners and their agent, Xoserve, may in future to offer a wider variety of services to the market based on the different regulatory and legislative regimes which cover domestic and non-domestic customers. This should encourage innovation which in turn will secure better competition between Shippers.

EDF Energy highlights that this proposal introduces a requirement into the UNC on Shippers to notify the Transporters of a change of usage at a Supply Point that they are currently registered to. This is already a requirement of Standard Licence Condition 17 (SLC 17) of the Supply Licence and will therefore create an issue of dual governance, which needs to be resolved prior to implementation.

EDF Energy believe that further consideration should be given to the legal and licence implications for auto-populating blank MSCs by the Transporters agent and whether consideration should be given to an auto-population exercise.

National Grid Distribution considers that this modification identifies a pragmatic solution to ensuring the timely population of Market Sector Codes on the Supply Point Register. Given that it is quite possible that future developments being considered within the remit of Project Nexus may require a greater use of separation of categories of Supply Points by market sector it is prudent that measures should be taken to ensure the accuracy and completeness of this data item.

RWE npower would like to see a lead-time of approximately three months prior to the implementation in order to make a full assessment of the impacts and costs. They believe that if each shipper had knowledge of their own individual volumes initially, this would have been advantageous, providing a clearer view in assessing the full system/process costs.

0353

Final Modification Report

07 March 2011

Version 1.0

Page 20 of 22

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SSE also question if an auto-population exercise would be more appropriate and suggest that consideration is given as to whether this would be more cost effective.

Scottish Power felt no consideration has been given to how Xoserve will guarantee the accuracy of MSC updates. As future changes could result in sectors being treated differently they believe it is crucial that the information that this is based on is accurate. They also highlight that Shippers/Suppliers will incur a cost in confirming this information during the transitional period.

Scottish Power also highlight that Shippers/Suppliers will be required to develop some form of control, both at the confirmation of a new supply point and as Supply Points move between domestic and non domestic over their lifetime, in order to ensure data passed to Xoserve is accurate.

10 Panel Discussions

11 Recommendation

Panel Recommendation

Having considered the 0353 Modification Report, the Panel recommends:

- that proposed Modification 0353 [should/should not] be made.