

Workstream Report
Introduction into the UNC of the Agency Charging Statement (“User Pays”)
Modification Reference Number 0188
Version 0.1

This Workstream Report is presented for the UNC Modification Panel's consideration. [Workstream attendees consider that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. Workstream attendees also recommend that the Panel requests the preparation of legal text for this Modification Proposal.]

1 The Modification 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”. An 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.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation of this proposal will 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”).

Provided both are implemented, this Proposal would complement the proposed licence condition amendment and the associated downward adjustment of regulated revenue. Hence introduction of the ACS into the UNC would complement the provisions of this new licence condition and, therefore, implementation would be expected to fulfil relevant objective SSCA11(c).

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the 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;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Implementation would not be expected to better facilitate this relevant objective.

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

No implications have been identified.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

No implications for operation of the system have been identified.

b) development and capital cost and operating cost implications:

No implications have identified.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No specific cost recovery is proposed with respect to this Modification Proposal, although it would support the framework which would allow cost recovery through the user pays approach in future.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No consequence for price regulation has been identified as a result of implementing this Proposal, although a change to the provisions for Must Read charges is anticipated as a result of the move to a user pays approach.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

While no systems development is necessary to accommodate implementation of this Modification Proposal, the introduction of new user pays charges would require amendments to system outputs to generate the new invoices.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

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. Consequently, implementation of the user pays approach would not require changes to core functionality, but revised processes and procedures would need to be implemented by xoserve. It would also be necessary to specify and give notice of a new invoice charge items.

Development and capital cost and operating cost implications

At present the costs associated with undertaking ACS services are reflected in

transportation charges and recovered as part of 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 GDPCR, it is proposed that costs for certain activities are removed from core 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.

Consequence for the level of contractual risk of Users

No such consequences have been identified.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No such implications have been identified.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Recognises the principle of user pays charges within the UNC
- Removes 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 1 April 2008

Disadvantages

- None identified.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

No written representations have been received.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works has been identified as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation coincident with introduction of new GT Licence obligations requiring an ACS to be produced is recommended, anticipated to be on 1 April 2008.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workstream recommendation regarding implementation of this Modification Proposal

[Workstream attendees consider that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. Workstream attendees also recommend that the Panel requests the preparation of legal text for this Modification Proposal.]