

**Guidance Document on Best Practice – Cost Estimates and Cost Allocations
relating to Uniform Network Code User Pays Modification Proposals.
Version 1.22**

Date: 12th March 2009

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Document Control

<u>Version</u>	<u>Date</u>	<u>Reason For Change</u>
<u>[x.x]</u>	<u>[xx/xx/xx]</u>	<u>New Document</u>

Development of the Guidelines

1. The requirement to publish Network Code Guidelines Document on best practice in relation to Cost Estimates and Cost Allocations relating to User Pays Modification Proposals is specified in Section M 5.13 of the Transportation Principal Document (TPD) of the Uniform Network Code (UNC). This section also provides for the document to be revised from time to time. The provision reads:

Comment [SU1]: Required

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“5.13 User Pays Guidance Document

The production of a User Pays Modification Proposal (including the provision of cost estimates and other information in respect of a User Pays Modification Proposal) pursuant to these Rules shall have regard to the User Pays Guidance Document which may be amended only by a determination of the Modification Panel in accordance with paragraph 5.1.2(a).”

Comment [SU2]: Required

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1. The Guidelines set out below meet the Transporters’ obligation to prepare guidelines, while the Document Control Section records changes which have been made to the guidelines. The document is published on the Joint Office of Gas transporters website, www.gasgovernance.com.

2. These Guidelines can be altered, following discussion, by a majority vote of the Modification Panel as defined in the Uniform Network Code.

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Audience

This note is intended for:

- Proposers of Uniform Network Code (UNC) User Pays Modification Proposals.
- UNC Workstream Group Members
- UNC Review Group Members
- UNC Development Group Members
- Modification Panel Members
- Joint Office of Gas Transporters
- Consultation respondents
- Ofgem/Gas and Electricity Markets Authority

Background to this document.

The Gas Distribution Price Control Review – Final Proposals document¹ published in December 2007 detailed Ofgem’s proposals to introduce a User Pays element to the funding of existing Transporter Agency services² and the funding of future industry change.

Uniform Network Code (UNC) Modification Proposal 0213V introduced a governance framework into the UNC to provide for Modification Proposals which may have an associated User Pays Service or User Pays Charge (for the purposes of this document – known as a User Pays Modification.).

The UNC Modification Rules require a Proposer to define a UNC Modification Proposal as either a User Pays Modification or as a non User Pays Modification and also to provide arguments to support this definition. It is envisaged that any UNC Modification which has the potential to incur incremental Transporter Agency costs (associated with any Transporter Agency centralised system or process change) will be classified as a User Pays Modification. At the conception of the Modification Proposal it is unlikely the Proposer will have in-depth knowledge of where, if any, incremental costs may be incurred during the development of a UNC Modification or as a result of the Modification’s potential implementation. Where there is the potential for incremental costs to be incurred by the Transporters’ Agency during the analysis stage, implementation stage and / or on going support for a service connected to a UNC Modification the UNC Modification shall be classified as a User Pays Modification. Where the UNC Modification is not classified as a User Pays

¹<http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents/1/final%20proposals.pdf> (Section 8.4)

² Detailed in the Transporters’ Agency Charging Statement – April 2008
http://www.gasgovernance.com/NR/rdonlyres/ED3F77AD-24A4-45E0-84E0-D4D70C9A9629/23883/AgencyChargingStatement_ForApproval.pdf

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Modification this implies the Proposer is fully aware that there will be a zero incremental Transporter Agency costs associated with the UNC Modification Proposal.

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To add further clarity a UNC Modification can be classified as a User Pays Modification with a 100% cost allocation to the Transporters.

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Purpose of this Guidance Document.

This guidance document provides a framework for Proposers of UNC Modification Proposals in relation to the provision of cost estimates by the Transporters and also the detailing of cost allocations in UNC Modification Proposals. This document also sets out suggested timeframes when the different cost estimates would be requested in order to support UNC Modification Proposals. For clarity this document should be considered as a guidance document only and has been produced to provide increased awareness of the content of cost estimates produced on behalf of the Transporters by their agency. This document also provides detail on the information which may be included in a UNC User Pays Modification Proposal relating to the cost allocations for the various cost types, also detailed in this document.

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"User Pays Guidelines": a set of standing guidelines issued by the Transporters governing the content of cost analysis documents and cost allocation decisions in support of UNC User Pays Modifications, as amended from time to time by Panel Majority. ¶
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Contents:-

1. Defined Terms Listing.
2. Introduction and interaction with obligations introduced into the UNC by Modification Proposal [0213].
3. Detail on Cost Estimates.
4. Cost Allocations.

1. Defined Terms Listing.

A	
Agency Charging Statement (ACS)	UNC TPD B1.7.11
D	
Detailed Cost Analysis (DCA)	Analysis document provided by Transporters detailing firm costs and timescales associated with changes required to systems and / or processes associated with the implementation of a UNC Modification proposal..
Development Cost (s)	System and process change costs associated with a UNC Modification proposal.
Development Cost Charge	ACS charge covering the Development Costs and DCA costs associated with a UNC Modification Proposal.
Development Phase	UNC MR2.1
I	
Industry Cost Allocation Matrix (ICAM)	Cost allocation matrix detailing the split of costs between Transporters and Shippers relating to systems and process change costs associated with the UNC Modification Proposal.
M	
Modification Proposal (Mod)	UNC MR2.1
P	
Proposer	UNC MR2.1
R	
Rough Order of Magnitude (ROM)	Analysis document provided by Transporters detailing estimated costs and timescales associated with system and process changes linked to a User Pays UNC Modification Proposal.
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Transporter	UNC GT B 2.1.1 (c)
Transaction Charge	ACS charge covering the ongoing Transaction Costs associated with the UNC Modification Proposal.
Transaction Cost (s)	Costs aligned to on going support costs and on going service costs associated with the UNC Modification Proposal.
U	
UNC Group	A Development Work Group or a Review Group or Workstream.
User	UNC MR2.1
<u>Shipper Cost Allocation Charge (SCAC)</u>	Cost allocation charge detailing how costs (as defined as a % in the ICAM) are targeted at Shipper Users, relating to systems and process change costs associated with the Modification Proposal.
User Pays Charge	UNC TPD B 1.7.12
User Pays Costs	Costs which have been identified by the Transporters in a DCA in relation to a Modification Proposal.
User Pays <u>Modification</u>	A UNC Modification Proposal which has associated User Pays Costs.
User Pays Service	UNC TPD B 1.7.13
V	
View	UNC MR2.1
W	
Workstream	UNC MR2.1

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2. Introduction and Interaction with Obligations Introduced into the UNC by Modification Proposal [0213].

UNC Modification Proposal 0213V introduced changes to the UNC Modification Rules to allow proposals which were identified as having associated User Pays Services or User Pays Costs, recoverable through a User Pays methodology, to be included within an appropriate governance framework. UNC Modification Rules require the Proposer of a UNC Modification Proposal to determine whether or not the Modification Proposal should be considered as a User Pays Modification. Where the Proposer determines a UNC Modification Proposal should be classified as a User Pays Modification this guidance document provides assistance to the Proposer in relation to cost estimates and cost allocations.

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The UNC Modification Rules allow for cost estimates to be provided by the Transporter in support of a User Pays UNC Modification Proposal at various stages of the Modification Proposal's development, either at a Workstream, UNC Review Group, UNC Development Work Group or generally prior to the Consultation Phase for the Modification Proposal.

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Process Flow For User Pays UNC Modification Proposal.

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During the UNC User Pays Modification process the Transporter can be requested to provide two types of cost analysis. The Rough Order of Magnitude (ROM) analysis can be requested at anytime during the UNC Modification Proposal process (it is expected to be requested before the Consultation Phase commences and also prior to any request for a Detailed Cost Analysis) and gives a rough (non binding) estimate of costs and timescales associated with the Modification Proposal at a specific point in time. The second type of analysis is the Detailed Cost Analysis (DCA) document which provides firm costs and timescales associated with the Modification Proposal at a specific point in time. The cost analysis documents slot into the UNC Modification Proposal process as indicated on diagrams 1 & 2.

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Stage 1:

The Proposer of the UNC Modification Proposal identifies the Modification Proposal as a User Pays Modification Proposal and provides a cost allocation proposal. The Proposer shall request the Modification Proposal be referred to the relevant industry forum, or proceed straight to the Consultation Phase. Where the Modification Proposal has been identified as a User Pays Modification Proposal the preparation of a ROM and / or DCA is critical to allow the development and efficient consultation of any User Pays Modification Proposal.

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Stage 2:

Where the Modification Proposal has been referred to a Development Work Group, Review Group or the Development Phase to discuss the content of the Modification Proposal and cost allocation proposal, a supporting analysis document would be required prior to the Proposal entering the Consultation Phase providing information on implementation timescales and costs associated with the change. As cost information is an important element which allows the group to develop their discussion and ultimately their recommendation on the Modification Proposal, either the Proposer, UNC Group, UNC Modification Panel or the Authority are able to request a ROM analysis document be provided by the Transporter at any stage of the Modification Proposal's development. (it is expected that the ROM will be requested before the Consultation Phase commences and also prior to any request for a DCA). It is envisaged that the UNC Group would arrive at a consensus decision on the most appropriate stage to make a ROM request once the business objectives have been agreed thus reducing the requirement to place multiple ROM requests with the Transporter. If the UNC Group can not reach a consensus view a ROM can be requested by the UNC Modification Panel. Where detailed and well developed business rules are provided the ROM analysis document will provide more accurate cost parameters and change timescales associated with the Modification Proposal. Thus, it is recommended that the Transporters' agency is involved in UNC Modification Proposal discussions from an early stage to provide assistance on the development of the Modification Proposal's business rules. It is intended that the Transporter will provide feedback to the UNC Group and / or Proposer to ensure the

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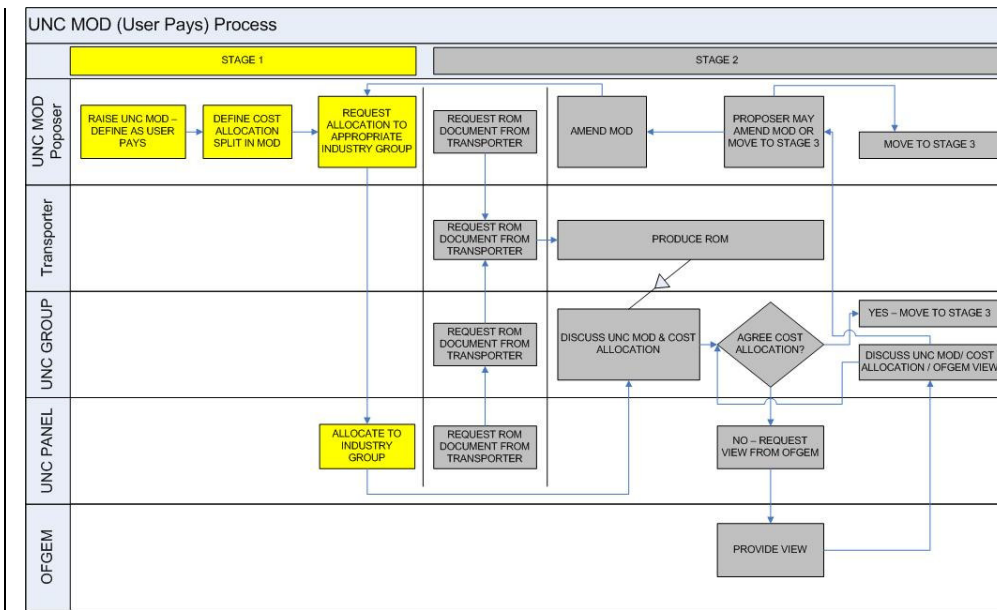
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most effective solution is developed. The Transporters will also provide firm costs associated with the provision of a DCA when required to do so but not as part of the ROM document.

Diagram 1 - Stage 1 & 2 of User Pays UNC Modification Proposal.



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Stage 3:

Once cost allocation discussions have taken place and either agreement has been reached or an Authority View³ has been provided a DCA document can be requested from the Transporters by the UNC Modification Panel. The DCA document will be provided by the Transporters' Agent and it shall detail the firm costs associated with the four cost elements (where appropriate) associated with the Modification Proposal. The costs provided in the DCA will form the basis of any Agency Charging Statement (ACS) amendment required to facilitate the User Pays element of the Modification Proposal. The ACS amendment will mirror the cost allocation detailed in the Modification Proposal and provide User Pays Charges associated with each of the four cost elements (where appropriate).

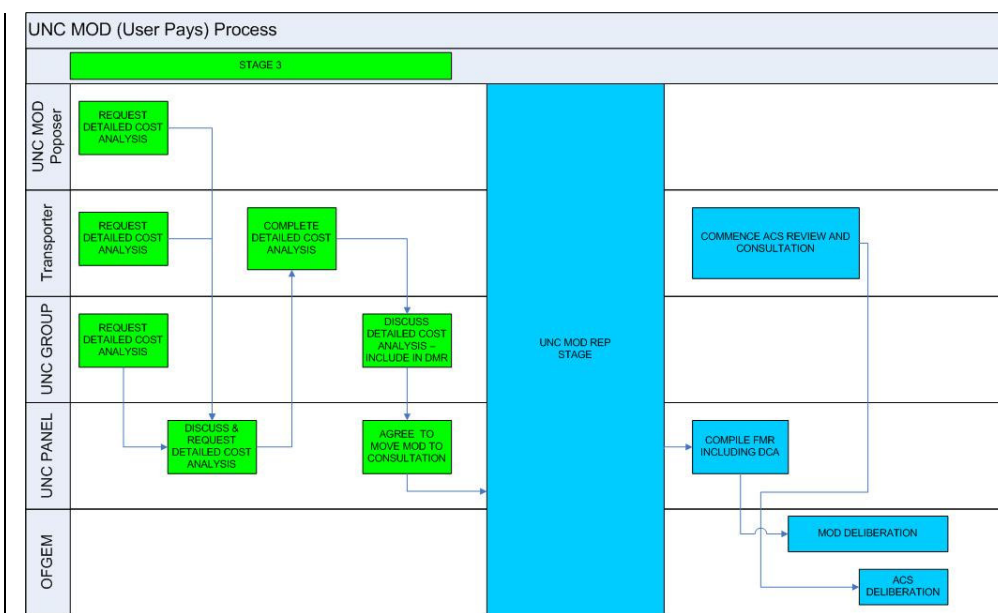
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To confirm, an Authority View on the Modification Proposal can be requested under any circumstances irrespective of whether agreement has been reached on the cost allocation. The Authority View may be utilised to advise the Transporters and Shipper Users on the appropriateness of the proposed cost allocation.

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³ As referenced in UNC MR 12.8.

Diagram 2 - Stage 3 of User Pays UNC Modification Proposal Proposal.



2. Detail on Cost Estimates.

Costs estimates required to support the UNC Modification process can be divided into two distinct types: Rough Order of Magnitude and Detailed Cost Analysis. Rough Order of Magnitude (ROM) cost estimates can be requested at any stage of the UNC Modification process prior to the Modification Proposal entering the Consultation Phase and will be required to be submitted to the Transporter on behalf of the Proposer, UNC Group, UNC Modification Panel or the Authority.

ROM Analysis Document.

A ROM cost estimate will provide high level cost estimates associated with three main incremental cost types associated with systems or process changes and broad indicative timescales for their implementation.

Rough Order of Magnitude Cost Types	
1. System Development Costs	Estimated incremental costs associated with the system development of an implemented UNC Modification Proposal
2. Ongoing Support Costs	Estimated costs associated with incremental support costs associated with systems or system changes linked to an implemented UNC Modification Proposal.
3. Service Costs	Estimated costs associated with providing an ongoing service.

The Transporters will provide firm costs and timescales associated with the production of a DCA document separately from the ROM document on request from the UNC Group or UNC Modification Panel. The Transporters will provide a validity period for these costs.

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Detailed Cost Analysis	
Firm Cost for provision of DCA	£
Timeframe for provision of DCA	X weeks.

1. System Development Costs:- The ROM document will provide a high level cost estimate associated with implementing system and process changes to allow the business rules of the Modification Proposal to be implemented. The ROM document will detail a high level cost estimate and also the estimated time frame for delivery. The high level costs may be specified as a range. The ROM document will detail any assumptions to which the cost estimates have been based upon and which have been agreed upon throughout discussions at the UNC Group or with the Proposer. The ROM will also detail which areas have not been included within the analysis and require separate consideration. One example of these changes maybe impact on other systems or training material provision.

2. Ongoing Support Costs: - The ROM document will provide a high level cost estimate of ongoing incremental support costs per annum associated with an implemented UNC Modification Proposal. The ROM may specify a range of costs.

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3. Service Costs:- Where the UNC Modification Proposal specifies an ongoing service requirement to support the objectives of the UNC Modification Proposal the ROM document will provide high level costs per annum associated with providing this service. The costs may be specified as a range.

ROM Document Information Provision	
Change driver / origin	Description of the change driver / origin associated with the ROM request and any parameters which have been stipulated in the original ROM request.
Analysis of Change Processes	Detail on system & process changes.
System Cost Analysis	See table below.
Issues	Issues associated with the business objectives or business rules. This may include issues linked to the drafting of the Modification Proposal and any consequential impacts on systems or processes.
Impacts	Additional impacts on Transporters or Shippers. E.g. Internal system change requirements.

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System Cost Analysis	
Estimated System development costs	From £x to £x
Estimated System development timeframe	x to x weeks
Estimated ongoing support costs per annum.	From £x to £x pa
Estimated ongoing service costs per annum.	From £x to £x pa

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If the Transporter can identify any cost savings or efficiency gains which stem from a coordinated systems' change process this will be included in the ROM. Also, where specific savings could be made by changing the scope of the UNC Modification this may be indicated in the analysis document.

Detailed Costs Analysis Document

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The DCA will provide detailed change information on systems and processes, firm costs associated with the changes required to implement the UNC Modification Proposal and firm timescales required to make system and process changes.

The DCA will contain the following sections:

- **Evaluation Summary:** The DCA will provide a high level evaluation summary of the UNC Modification Proposal and the system and process changes proposed in the Modification Proposal and will also provide a summary of the impacted system areas.
- **Key Business Requirements:** Where there are inter dependant process or system changes required to allow the successful implementation of the Modification Proposal any associated Agency change details will be provided.
- **Business Drivers:** As detailed in the UNC Modification Proposal.
- **Objectives:** As detailed in the UNC Modification Proposal.
- **Key Change Dependencies**
- **Constraints**
- **Impacts:** Impacts on the relevant Industry organisations.
- **Assumptions**

Where demand information has been provided (with reference to the “Provision of Estimated Demand Information” section) user charges will be provided in the DCA based on the ICAM & SCAC as detailed in the Modification Proposal. These charges will be based on cost information and demand information as available at the time of the DCA compilation. At the point the ACS review and consultation commences if user charges differ from those specified in the DCA an explanation will be provided for the deviation. Such deviations may stem from Transporter service provider cost increases, hardware price increases or where the Modification Proposal’s intent or business rules have been modified post provision of the latest version of the DCA.

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DCA System Cost Analysis	
Firm system Development Costs	From £x to £x
Firm system development timeframe	From x weeks to x weeks.
Firm xoserve direct project delivery costs	From £x to £x
Firm ongoing support costs per annum.	From £x to £x pa
Firm ongoing service costs per annum.	From £x to £x pa

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3. Cost Allocations.

Once a UNC Modification Proposal has been defined as a User Pays Modification, the Proposer shall specify the cost allocation split between UNC parties.

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This guidance document does not set out to influence the cost allocation split or provide definitive rules on how the Proposer should decide upon their methodology for this designation. This document sets out the basis for conveying the information by the Proposer to other UNC parties and also to provide a robust and straight forward decision tool for Proposers to determine the percentage split of costs. There are two distinct areas to the cost allocation decision a Proposer must specify. The initial cost allocation split of charges, referred to in this document as the Industry Cost Allocation Matrix (ICAM), details the division of costs between Transporters and Shipper Users. The division of costs at this initial stage should be based on the Proposer's background analysis and primary development of the Modification Proposal and should reflect their consideration of where perceived benefits or cost savings flowing from any eventual implementation of the Modification Proposal would be realised. The UNC Modification rules require that the Proposer provides detailed information on how they have initially concluded their decision on the cost allocation split specifying reasons for their decision. The secondary cost allocation, referred to in this guidance document as the Shipper Cost Allocation Charge (SCAC), specifies the further split of costs between Shipper Users. Both the ICAM and SCAC can be modified by the Proposer during the development of the Modification Proposal.

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Industry Cost Allocation Matrix (ICAM).

The ICAM allows the Proposer to specify the percentage split of costs between Transporters and Shipper Users. It is suggested that the percentage split allocated in the matrix by the Proposer reflects the UNC Modification Proposal's furtherance of the relevant objectives as set out in the Transporters' Special Standard Licence Condition A11(1) sections (a) to (f). Where the Proposer utilises a different approach from these suggested allocations they will provide a detailed rationale for their decision.

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Standard Special Condition A11 (1).

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(a) the efficient and economic operation of the pipe-line system to which this licence relates;

(b) so far as is consistent with sub-paragraph (a), the 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;

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

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- (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;

(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 are satisfied as respects the availability of gas to their domestic customers; and

(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;

Industry Cost Allocation Matrix

Funding Group Cost Type	Cost Allocation Number	Transporters	Shippers	Percentage Cost Allocation Split – Linkage to SSC Licence A11 (1) Relevant Objectives.	Proposer’s Cost Allocation Decision
Detailed Cost Analysis and Development Costs.	1	0%	100%	(d) (i) and / or (d) (ii) and / or (e) only.	Comment [SU4]: TBC
	2	25%	75%	(d) (i) (ii) (iii) only. or (d) (i) (ii) and (f) only or (e) and (f) only	Comment [SU5]: TBC
	3	50%	50%	(a) and / or (b) and / or (c) and (d) (i) (ii) (iii) and (e) and / or (f).	Comment [SU6]: TBC
	4	75%	25%	(a) and (b) and (c) only or (a) and (c) only or (b) and (c) only	Comment [SU7]: TBC
	5	100%	0%	(a) and/or (b) and/or (c) and/or (d)(iii) only	Deleted: only Deleted: Deleted: (a) and Comment [SU8]: TBC

In the above ICAM the Proposer would specify one of the five detailed cost allocations splits to be associated with the DCA costs and Development Costs as specified in the ROM and DCA documents provided by the Transporters. The ICAM is a suggested cost split for User Pays Modification Proposals and as such the Proposer may choose a different rationale from the defined cost allocations where there are apparent additional benefits for Transporters or Shippers

In certain circumstances the ROM may specify there are zero costs associated with the provision of the DCA. There may also be zero Development Costs. In certain circumstances there may not be a requirement for an ongoing Transaction Charge as there are no ongoing Transaction Costs.

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Shipper Cost Allocation Charge (SCAC)

The SCAC allows the Proposer to specify how the Shipper User costs as detailed in the ICAM are targeted at Shipper User organisations. Where Transporter organisations have been allocated a percentage split of costs in the ICAM, pre-determined cost splits will be applied to Transporter costs as detailed in the Transporters' Agency Charging Methodology document. The Proposer may determine that costs allocated to Shipper organisations in the ICAM should be split between organisations by various means. It is expected that the ICAM will ensure that costs are targeted at those that are utilising the service and/or the potential beneficiaries of the service. The following examples are specified for reference only and do not provide a comprehensive set of Shipper User cost allocations.

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SCAC – Example 1

A User Pays service that benefits all Shipper Users with a supply portfolio

Funding Group	All Shippers
Cost Type	
Detailed Cost Analysis and Development Costs.	Commodity charge (p/kWh) based on Shipper's UDQO.

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SCAC – Example 2

A User Pays service that benefits all SSP shippers depending on the number of SSP meter reads submitted

Funding Group	Shipper "A"	Shipper "B"	Shipper "C"	Shipper "D"	Shipper "E"	Shipper "F"
Cost Type						
Detailed Cost Analysis and Development Costs.	Monthly standing charge based on number of SSP meter reads submitted (p/SSP meter read submitted).	Monthly standing charge based on number of SSP meter reads submitted (p/SSP meter read submitted).	Monthly standing charge based on number of SSP meter reads submitted (p/SSP meter read submitted).	Monthly standing charge based on number of SSP meter reads submitted (p/SSP meter read submitted).	Monthly standing charge based on number of SSP meter reads submitted (p/SSP meter read submitted).	Monthly standing charge based on number of SSP meter reads submitted (p/SSP meter read submitted).

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SCAC – Example 3

A User Pays service that benefits all Shippers depending on the number of supply points in their portfolio

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Funding Group	Shipper "A"	Shipper "B"	Shipper "C"	Shipper "D"	Shipper "E"	Shipper "F"
Cost Type						
Supply Point Count	34%	21%	27%	11%	5%	2%
Detailed Cost Analysis and Development Costs.	<u>Annual standing charge based on supply point count (p/supply point)</u>	<u>Annual standing charge based on supply point count (p/supply point)</u>	<u>Annual standing charge based on supply point count (p/supply point)</u>	<u>Annual standing charge based on supply point count (p/supply point)</u>	<u>Annual standing charge based on supply point count (p/supply point)</u>	<u>Annual standing charge based on supply point count (p/supply point)</u>

Ongoing Support Costs and Ongoing Service Costs

The DCA document may identify costs associated with ongoing services provided by the Transporters' agency associated with the Modification Proposal's requirements. These costs may be directly attributable to the service requested in the Modification Proposal and / or with ongoing support costs associated with systems required to deliver the service. Ongoing service costs and support costs will be allocated to the users who draw on the service, either by directly requesting the service from the Transporters' agent or by submitting or changing data which causes the service to be automatically instigated by the Transporters' agent's system or systems, for example a Must Read⁴. Ongoing service costs and support costs will be bundled into one cost known as the Transaction Cost and will be specified in the Transporters' Agency Charging Statement as the Transaction Charge.

Relationship with the Transporters' Agency Charging Statement

On implementation of the Modification Proposal the Transporters will translate the specified cost allocations in the ICAM and SCAC into a User Pays charge which will be detailed in the Transporters' Agency Charging Statement under a separate charging line known as the Development Cost Charge. Similiarly any on-going service and support costs will be translated into a Transaction Charge and will be payable as the service is drawn upon by users.

The Authority would request, from the Transporters an ACS review and consultation to commence to support the User Pays element of the Modification Proposal. This may coincide with a request for legal text or be requested separately after the provision of the Final Modification Report.

Provision of Estimated Demand Information

Where the UNC Modification Proposal specifies or requires an ongoing service to be provided by the Transporters or there is an ongoing support cost associated with systems, a Transaction Charge will result. To allow the formulation of a Transactional Charge in the ACS the Proposal shall quantify a Shipper User level of demand which will prevail on implementation of the UNC Modification Proposal or request that during the construction of the ROM and / or DCA documents the Transporters' Agent

⁴ [UNC Section M 3.6.1](#)

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calculates an estimated demand level based on any information they may have available at that point in time. To confirm, this would only be requested where the Proposer is unable to provide or calculate their own demand level assumptions and only where the Transporters' Agent has the necessary information to enable these estimates to be provided. In circumstances where Shipper Users are able to calculate future demand levels relating to a User Pays [Modification](#) but do not wish to make these figures available to other industry participants, figures may be submitted in confidence to the Transporters' Agent for an aggregate demand level calculation. This aggregate demand level calculation may be presented in analysis or ACS documents to increase transparency of cost or charge calculations.

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