Review Group Report
Review Proposal Reference Number 0178
Reclassification of SSP to Domestic only
Version 1.0

1 Introduction

This Review Group Report is presented for the UNC Modification Panel's consideration. The consensus of attendees is that this Review Group has finished its work in accordance with its Terms of Reference.

The different provisions for domestic and non-domestic properties in the Gas Supplier Licence and the Uniform Network Code have been investigated. These provisions have been examined for any relationship they might have to the allocation of daily quantities and reconciliation.

The Review Group has also investigated, at a high level, the errors associated with allocating daily quantities to domestic Larger Supply Points (LSPs) to a non-domestic profile and to non-domestic Smaller Supply Points (SSPs) to a domestic profile. Three main approaches have been identified:

Non Domestic SSP	**Domestic LSP**
Profile Change to Non Domestic	Profile Change to Domestic
Profile Change + Individual reconciliation	Profile Change + Aggregate Reconciliation
Profile Change + Individual reconciliation + all other requirements currently associated with LSP	Profile Change + Aggregate Reconciliation + all other requirements currently associated with SSP

Finally, the numbers of Supply Points that would potentially be reclassified have been estimated together with the uncertainties associated with the current data set. The effect that reclassification on UK Link systems has also been discussed.

The Review Group carried out a qualitative analysis of the three options which might form the basis of any Modification Proposal raised within this area of study. As this analysis was not quantitative the Review Group did not seek to reach any consensus. It is, however, open to the Proposer or any other Code Party to raise a Modification Proposal and the work of this Group would serve to inform development and consultation responses.

2 Review Proposal

E.ON UK raised Review Proposal 0178, for which the Terms of Reference are included as Appendix 1.

3 Review Process

In accordance with the Modification Rules, at its meeting on 18 October 2007, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

4 Areas Reviewed

The Review Group discussions focussed on the following areas:

a) Shipper Licence Provisions

An Ofgem attendee assisted the Review Group in respect of the Gas Supplier Licence conditions. One provision that might have been relevant to the allocation and reconciliation had been removed. No other provisions were identified that the Ofgem attendee believed would indicate a change to current processes.

b) UNC Provisions that Address Market Sector Status

National Grid Distribution, on behalf of the Group, carried out a review of the Uniform Network Code in respect of provisions that depend on the domestic/non-domestic status of any Supply Point. Five references within the UNC were identified but the Review Group agreed that these were not relevant to allocation and reconciliation processes.

The Transporters have different liability arrangements for domestic and non-domestic properties that apply in the event of failure to supply. Currently the status of many Supply Points, within the SSP population, is unknown and these are assumed to be domestic. As failure to supply provisions for domestic properties are more onerous there is a cost impact for Transporters in respect of properties of unknown status.

The Supply Point data includes a Market Sector flag that can be set to domestic or non-domestic or be left unset but evidence was given to the Review Group that 33.5% of Supply Points were left unset and therefore assumed to be domestic. A Transporter expressed the intention of making the Market Sector flag an obligatory item and to take steps to require population of the current data sets. The Review Group agreed that this exercise would have to be completed before any reclassification but the costs involved should not be associated with reclassification.

c) UNC Provisions that address SSP/LSP Status

National Grid Distribution also provided an analysis of the Uniform Network Code which demonstrated the difference between treatment of SSPs and LSPs, although it didn't claim this analysis to be exhaustive. In summary these were as follows:

i) Daily Metered Election

- Users may elect for LSPs to be Daily Metered

ii) AQ Processes

- SSP AQ notifications and interim reports of appeals go out a month before LSPs.
- A 20% tolerance applies for challenging SSP AQ changes, expect where a SSP to LSP change is indicated.
- Right to appeal for LSPs if warranted by substantial evidence of consumption or change in Consumer's Plant.

iii) Supply Point Enquiries

- Less details to be supplied by the Transporters in the case of a SSP.
- Timetable for responses on SSPs that depend on numbers of enquiries submitted by the User

iv) Supply Point Nominations, Offers and Confirmations

- Simplified "confirmation only" process if SSP is existing and consists of only one Supply Meter Point.
- Potential time saved for SSPs as Offer for LSPs might take eight Business Days without incurring Transporter liability
- Less information given to User or prospective User during process.

- Option of User requesting monthly read status for LSP

v) Gas Not Made Available for Offtake

- Flat rate for SSP, charge related for LSP

vi) Maintenance Days

- Different rules for LSPs and SSPs affected by maintenance on the NTS.

vii) Metering

- Estimates of gas consumption only apply to SSPs in the event of a meter by-pass.
- Different requirements on Users obtaining valid Annual reads (70% for SSPs and 90% for LSPs)
- More frequent than annual meter reading, at the Users request, is subject to the limitation that there should not be more than one reading in a 14 Day period for LSPs but 63 Days for SSPs.
- Charge to Users for provision over a calendar month of less than 90% of Opening Reads in the event of transfers applies to SSP only.

viii) Emergency Load Shedding

- SSP's, together with Priority Supply Points last to be subject to emergency load shedding.

ix) Invoicing Queries

- Ability to batch LSP queries where payments based on 95% sample complying with requirements.
- Different payments for not meeting the four, ten and twenty Day query resolution performance.

x) Provision of RbD Auditors Report

- Only sent to Users that hold SSPs.

xi) Compensation Rules

- Higher compensation rates apply to LSPs than SSPs for slow response to a Supply Point Nomination

d) Numbers of Supply Points Potentially Reclassified

Based on Supply Points that have the market identifier flag set to non-domestic, the Transporters estimated the number of non-domestic SSPs at 380,000. This compares with 260,000 non-domestic LSPs. On the same basis there are 58,000 domestic LSPs.

However, the number of Supply Points without a market identifier flag set is estimated at 8,380,000 SSPs and 40,000 LSPs.

e) Evaluation of Potential Solutions

The Review Group evaluated the advantages and disadvantage of each option outlined in section 1 above. Except where stated, both the advantages and disadvantages are cumulative; for example, the "full solution" would be expected to have all the advantages and disadvantages associated with changes to the profile and reconciliation basis plus more besides.

i) Profile Change

Advantage

- Daily allocation using profiles that reflect the market identifier (ie domestic or non domestic) is likely to be a more accurate reflection of actual consumption. This would have the following consequences:
    - Users' balancing or cash-out costs would more closely reflect gas costs to meet that consumption on the Day.
    - Any temperature or day of the week characteristics of gas prices would be more accurately reflected in Users' costs.
    - Scaling factors would be closer to 1 thus reducing the extent to which the scaling factor distorts the allocation.
    - Reconciliation quantities would be smaller.

Disadvantages

- There is no currently agreed methodology by which Supply Points would be allocated market identifiers.
- Systems costs for both Transporters and Shipper associated with allocation of individual Supply Points to End User Categories (EUCs), based on a combination of AQ and market identifier.
- Ongoing costs of administering EUCs based on more complex criteria.
- Data maintenance costs associated with the market identifier eg when usage of an individual premise changes.
- Major system costs from implementing a split SSP EUC which requires a fundamental change in the way the SSP market sector is allocated.

Balance of Costs/Benefits

- Currently the Supply Point data includes a market indentifier but it is not totally populated and the accuracy with which this indicator is set is unknown. A DN hase stated that it will be taking steps to require population of the data, in any event, and therefore the cost of this exercise should not be taken into account in any cost/benefit analysis.
- Some evidence was presented to the Group that there were day-of-the week differences in gas prices based upon SAP and forward gas prices. It could be argued that the forward price is more relevant for Users that balance and that SAP is more relevant for Users that do not.
    - An analysis of Gas Year 2006/7 showed an average difference of 0.6 p/therm in SAP, as the day to day variation was high this difference did not prove to be significant.
    - A forward price analysis conducted by a Review Group member on three years of data concluded that this difference was 2.4 p/therm, which was approximately 7% of gas costs. This member also emphasised that certain trading processes and decisions rely upon the fact that there are differences between weekday and weekend prices.
- For Users that specialise in one market sector, even the average price difference found in SAP could have a substantial effect on their costs and might therefore justify the systems costs. However, more analysis would be needed to define the impacts for different Users.
- No analysis was carried out on temperature vs allocation vs gas price effects due to differences in the weather sensitivity of market sectors.

ii) Reconciliation Change

For this option, the Review Group believed there were two sub options: 2a (migration of non-domestic SSPs into Meter Point Reconciliation) and 2b (option 2a, plus the migration of domestic LSPs into RbD (migration both ways)) and that it would be useful to identify the advantages and disadvantages of each. The following lists therefore identify these two sub-options.

In addition to the above, the following advantages and disadvantages were identified by the Review Group:

Advantages

- Individual reconciliation of non domestic SSPs would ensure that Users were not impacted, in respect of these Supply Points, by any inherent errors within RbD.(2a and 2b)
- The RbD principle of aggregate reconciliation on the basis of AQs would still be valid. (2a and 2b)
- For Users that are only active in the non domestic market, only one set of reconciliation processes would be required. (2a and 2b)
- For Users that are only active in the domestic market only one set of reconciliation processes would be required. (2b)

Disadvantages

- Additional system and administration costs for both Transporters and Shippers due to processing more individual Supply Point reconciliations. (2a and 2b)
- Users of domestic LSPs would take on a share of any inherent errors within RbD. (2b)
- A net reduction in the number of Supply Points subject to RbD, if not reflected by a reduction in the inherent error, would increase the exposure on Users with “RbD Supply Points”. (2a and 2b)
- Withdrawal of Individual Meter Point Reconciliation from domestic LSPs would introduce a risk to RbD Users. (2b). The Review Group members had different perspectives on the magnitude of this risk.

Balance of Costs/Benefits

- If application of individual reconciliation at a particular Supply Point benefits the User at that Supply Point, then it could be argued that there is a net benefit in so far as the number of non-domestic SSPs is greater than the domestic LSPs (2a and 2b). If it was decided that there would be no migration of domestic LSPs into the RbD population then the net benefit would be slightly reduced. (2a)
- However, any benefit to individual Users due to migration of non-domestic SSPs from RbD should be balanced against the increased exposure on those that remain due to any inherent errors in the RbD process. The extent of these errors may be mitigated by moving to a rolling AQ process that is being considered by Review Group 0177 “Rolling AQ Review”, by the outcome of Development Work Group on Proposal 0194 “Correct Apportionment of NDM Error – Energy” or by any outcome from Review Proposal 0208 “Information relating to Unallocated Energy”. (2a and 2b)

- The Review Group did not reach a view on whether the combination of these constituted a net benefit and whether this would outweigh the cost of systems and administration although this would be mitigated by including the changes as part of UK Link replacement

iii) Other Changes

Advantages

The major advantage identified by the Review Group was that, if this were implemented, some Shippers would have better alignment of their commercial activities with the two main market sectors. The processes involved include the following:

- Non domestic SSPs could elect to be Daily Metered
- Non domestic SSPs would have enhanced appeal rights in the AQ review.
- Shorter timescale for domestic LSPs as they become "confirmation only".
- More details would be provided to non domestic SSPs through the Supply Point enquiry and nomination processes.
- Theoretically non domestic SSPs would benefit from Maintenance Day provisions.
- Less stringent rules for domestic LSPs for obtaining valid Annual reads.
- Non domestic SSPs could elect to take more frequent meter reads.
- Domestic LSPs would be lower down the emergency load shedding list
- Users would be able to batch domestic LSP invoice queries.
- Higher compensation for non domestic SSPs if Transporter is slow to respond to Supply Point Nominations.
- Clarity of Transportation charging on invoices for non domestic SSPs
- Parity of compensation for emergency load shedding etc for all Domestic consumers (including those with erroneous AQ) although theoretically domestic LSPs would lose the benefit of Maintenance Day provisions.
- System costs mitigated by inclusion within system rewrite
- More stringent rules for non domestic SSPs for obtaining valid Annual reads would help ensure reconciliation flowed into RbD more effectively.
- Non domestic SSPs would, theoretically be higher up the emergency load shedding list protecting true domestics
- Users would no longer be able to batch non domestic SSP invoice queries ensuring accuracy of invoice queries
- Non-domestic SSPs could take advantage of the batching facility.

Disadvantages

- For Transporters, it was difficult to identify any benefit from this change.
- Domestic LSPs would lose the theoretical right to become Daily Metered, although it is not believed there are any currently.
- Domestic LSPs would have less rights to AQ appeals.
- Potential increases in AQ appeals would be expected to increase system and administration costs

- Longer timescales for non domestic SSPs due to incorporation of Supply Point nominations and offer stages.
- Less information for Domestic LSPs as they become confirmation only.
- Systems and administration costs associated with an increased number of Supply Point Offers.
- Domestic LSPs would lose right to elect to take more frequent meter reads.
- Set-up costs and ongoing administration costs in migrating non domestic SSPs to a higher place on the emergency load shedding list.
- Lower compensation for domestic LSPs if Transporter is slow to respond to Supply Point Nominations.
- Potential second order effects from major changes to the UNC
- To retain consistency, major changes would be indicated in the pricing structure which is currently based on AQ
- Users of domestic LSPs would be unable to take advantage of the batching facility.

Balance of Costs/Benefits

- The following potential changes would have little or no impact:
  - Compensation rate differences as such payments are rare,
  - Maintenance Days as they rarely apply to LDZ Supply Points
  - Election of Daily Metering
  - Gas consumption estimation in the event of bypass.
  - Restrictions on meter reading frequency.
  - Receipt of the RbD Auditors report as many Users would still retain a domestic portfolio.
  - Batching of invoice queries. (This has not been greatly utilised in practice)
- The effect on AQ processes could be substantial but only if Users increased the number of appeals due to the reduction of current limitations on non domestic SSPs. There is no evidence that this would happen or not.
- The change from confirmation only to nomination/offer/confirmation could have a substantial impact. However, if the main reason for Users requiring the information is related to the complexities of the applicable pricing methodology, this would argue for the retention of the status quo. The current pricing methodologies are related to load size and changes to this basis would be through the pricing consultation rather than through UNC.
- In respect of Gas Supply Emergencies the relevant procedures are set-up to reflect the priority given to various load bands. There is no reason why this needs to be by load band and change by usage could provide benefits to domestic users. A change to this basis would involve changes to emergency procedures, HSE involvement and work on the data required to inform the emergency coordinator.
- Change to domestic and non domestic usage would align with the recent Utility Act legislation. This would align the settlement processes with industry changes for reporting. Also for new initiatives such as Smart Metering where the legislation is mandating changes for non domestic sites on different

timescales and with different technical requirements to implementation in domestic properties.

As the Review Group did not carry out a quantitative cost benefit analysis, it was unable to conclude which if any of the three options were justified. The qualitative analysis highlighted the areas that any Proposal would need to address in its justification.

5 Recommendation

The Modification Panel is invited to accept this report on the basis that this Review Group has finished its work in accordance with its Terms of Reference.

Appendix 1 Terms of Reference

Purpose

This Review Proposal seeks to establish the costs, benefits and opportunities associated with reclassifying the current Domestic population of Smaller Supply Points (SSP) as Domestic Only.

Background

The licence requirements for Gas Shippers are linked to a Domestic/Non-Domestic categorisation. Ofgem definition of a Domestic Customer is "*a customer supplied or requiring to be supplied with gas at domestic premises but excludes such customer insofar as he is supplied or requires to be supplied at premises other than domestic premises*". The definition of Domestic Premises is outlined in Standard Condition 6 of the licence and is appended here for reference. Licences are issued for Domestic Supply Contracts.

There is a disconnect between the licensing regime and the operation of UNC where a SSP is defined as any Supply Point with an AQ below 73,200 kWh per annum. This leads to Suppliers with Non-Domestic licences still having a requirement to be subject to the RbD Reconciliation mechanism where they supply small commercial premises below the SSP threshold.

Many of the current industry processes are linked to the 73,200 kWh split and to implement a change would be extremely difficult. With the replacement of the UK Link System in 2012 there is an opportunity to review this and to potentially design systems that would provide a flexible approach that matches operational balancing and capacity planning requirements with licence conditions.

There has been a domestic flag stored within UK Link for a number of years. This is not practically used as there is no validation on the flag and in many cases the flag is not populated. It is accepted that there would be an industry overhead in the implementation of a move from an AQ defined split into a premise categorisation and that data validation would be key to ensuring the success. This would be short term, however, and data validation could proceed over the next few years until the UK Link replacement was finalised.

The Review Group would fully discuss the benefits and disadvantages of moving from an AQ based to market sector categorisation across Transporters and Users and any alternative approaches that might be followed, in time to influence the UK Link system changes for 2012 replacement. Although there is some overlap with Review Group 0168, this topic is not specifically limited to SSP impacts and will interest both LSP and SSP shippers.

Scope and Deliverables

The Group is asked to consider, in the context of any change in classification:

1. Identification of alternative solutions and their advantages and disadvantages
2. Operation of the RbD mechanism.
3. Impact on SPA processes.
4. Associated opportunities to introduce additional controls to ensure accurate Domestic AQs.
5. Additional controls on market sector flags and the associated work involved in population, validation and maintenance.
6. Impact on EUC banding, Demand Estimation, nomination and allocation.
7. IGT network impacts that would need consideration.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Other than the details required in order to reach a conclusion on the way forward.

Composition

The Review Group will comprise the following representation

Name	Organisation
John Bradley (Chair)	Joint Office
Mike Berrisford (Secretary)	Joint Office
Sallyann Blackett (Proposer)	E.ON UK
Chris Warner	National Grid Distribution
Fiona Cottam	xoserve
James Boraston	RWE npower
Joanna Ferguson	Northern Gas Networks
Joel Martin	Scotia Gas Networks
Marie Clark	ScottishPower
Mitch Donnelly	Centrica
Phil Broom	Gaz de France
Richard Street	StatoilHydro
Shelley Rouse	StatoilHydro
Stefan Leedham	EDF Energy

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
    - Gas Safety (Installation & Use) Regulations.
    - Gas Safety (Management) Regulations.
    - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.