

**Draft Modification Report**  
**Introduction into the UNC of the Agency Charging Statement (“User Pays”)**  
**Modification Reference Number 0188/0188A**  
**Version 2.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

**1 The Modification Proposal**

**Proposal 0188**

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

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

**Proposed Business Rules**

**1 Status of the ACS in the UNC**

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

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

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

**2 Invoicing**

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

**3 Code ACS Services**

The code ACS services are as follows:

- **Must Reads**

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

- **Shipper Agreed Reads**

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

- **User Admission**

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

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

### **Consequences of non-implementation**

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

### **Proposal 0188A**

The purpose of the proposal is to give effect to, and to identify the purpose of, the Agency Charging Statement in the UNC, and give effect to the ACS and associated documents as UNC Ancillary Documents. For clarity it is intended that the ACS, Contractual Documents including the Service Order, Service Schedule and Terms and Conditions should be included and referenced as ancillary documents to 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 to 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, and is included as an ancillary document to the code.

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

(Note: The ACS will also contain methodologies and charges for non-code ACS Services. These are services provided by xoserve, either on behalf of transporters or in xoserve’s own right. This proposal is concerned with both code and non-code ACS Services.)

## **2. Status of the User Pays Contractual Documents in the UNC**

The Contractual Documents associated with User Pays, including the Service Order document will be cross referenced within the ACS. No specific reference to these documents is required within the UNC, as this will be facilitated through the reference to the ACS. For clarity the Contractual Documents should sit as an Ancillary Document to the code.

## **3. Status of the User Pays Standards of Service in the UNC**

The Standards of Service document associated with User Pays will be cross referenced within the ACS. No specific reference to this document is required within the UNC, as this will be facilitated through the reference to the ACS. For clarity the Standards of Service document should sit as an Ancillary Document to the code.

## **4. Status of the User Pays Terms and Conditions Document in the UNC**

The Terms and Conditions document associated with User Pays will be cross referenced within the ACS. No specific reference to this document is required within the UNC, as this will be facilitated through the reference to the ACS. For clarity the Terms and Conditions document should sit as an Ancillary Document to the code.

## **5. Invoicing**

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

Non-Code ACS Services would be invoiced by xoserve using a paper based system.

## **6. 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. The 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 IX connection costs, and one to reflect the rest of the User set up charge.

## **7. Non Code ACS Services**

The Non Code ACS Services are as follows:

- **Provision of Information**

The ACS Service is the provision of a supply point information service, as required by SSC A31.2 (d) of the Gas Transporter Licence to facilitate changes of supplier. This service includes Internet Access to Data, Telephone Enquiry Service, M Number DVD, and E-Mail Enquiry Service. This service would be invoiced by xoserve.

- **Reports**

The ACS Service is the provision of a series of standards of reports providing information about a Shipper’s portfolio is available to Shippers. This service includes the Query Management – Standards of Service Report, the Portfolio Statement Report, the User Portfolio Report, the CSEPs Portfolio Statement Report, the Unique Sites – Portfolio Statement Report, the Annual Asset Portfolio Report, the Transco Asset Portfolio Report and the “Dead” Portfolio Report. This service would be invoiced by xoserve.

- **AQ Enquiry**

The ACS Service is part of the Annual Quantity Review and Appeals processes, where Shippers are able to submit meter read data and obtain a trail calculation of an Annual Quantity, commonly referred to as the Spec Calc. This service would be invoiced by xoserve.

- **Ad-hoc additional services**

Ad-hoc services are currently defined in the draft ACS as Ad-hoc services which are in addition to those provided above and which are not contestable, i.e. there is no alternative source for the additional service. These services would be invoiced by xoserve.

## **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.

By not including the documents as Ancillary Documents to the code, these will be cross referenced within the UNC, but would not be subject to the normal Governance arrangements associated with UNC Documents. Whilst this is common practice for the Methodology Statements that are Licence requirements and cross referenced within the code, we are aware that these are subject to Ofgem approval. Whilst Ofgem has indicated that the ACS document will be subject to Ofgem’s approval we are aware that they have indicated that they do not intend to approve the other associated documents, and are also considering as part of the Governance Review allowing Users to propose changes to the ACS. By including these documents as Ancillary Documents this will ensure appropriate Governance and enable Users to propose changes without the requirement for a Licence Condition change.

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

*Standard Special Condition A11.1 (a): the 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 subparagraph (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;*

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

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

Implementation of either Proposal would fulfil an obligation expected to be placed on each Transporter by the proposed amendment of Standard Special Condition A15, due to take effect in April 2008 in conjunction with the ongoing development of the 2008-13 Gas Distribution Price Control Review, (“GDPCR”) (Now accepted by all Transporters).

Provided both a Modification Proposal and the Licence amendment are

implemented, implementing either Modification Proposal would complement the proposed Licence condition amendment and the associated downward adjustment of regulated revenue. Hence introduction of the ACS in the UNC complements the provisions of this new Licence condition and, therefore, implementation will fulfil relevant objective SSCA11(c).

***Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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;***

The Proposer of 0188 believes implementation would not be expected to better facilitate this relevant objective.

The Proposer of 0188A believes by including all the documents associated with User Pays as ancillary documents to the Code, this proposal will enable the industry to propose changes that meet the relevant objectives. This would ensure that the terms included in these documents were developed to promote competition between Shippers and ensure that all Shippers benefited, rather than just those who were best placed to work within the contractual requirements that were imposed on them. Implementation would therefore fulfil relevant objective SSCA11.1 (d).

***Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (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;***

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

***Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (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:**

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

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

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

**d) 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 either Proposal.

**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**

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

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

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

**0188A:**

By placing these documents as an Ancillary Document to the code there would be a transfer of contractual risk from Shippers to Transporters. This would be caused by the fact that Shippers would reduce their risk of being exposed to

contract terms that they were unable to change, with an inverse impact on Transporters’ contractual risk. However the Proposer believes that this risk would be minimised by the fact that any changes to Ancillary Documents have to gain UNC Committee approval, which the Transporters are represented on and have 50% of the vote. Further this Proposal would also reduce Transporters’ risk that they could be exposed to legal action as a result of unfair contract terms imposed on Shippers.

**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 direct implications are anticipated as a result of implementing either Modification Proposal, introduction of User Pays invoices would need to be supported by new management information. The implementation of the User Pays concept would not require changes to core invoice system functionality, but revised processes and procedures would need to be implemented by xoserve. It would also be necessary to specify and give notice of invoice charge items.

**7 The implications 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)*

0188: Additional invoices and supporting information may impose an additional administrative burden on Users.

0188A: Additional invoices and supporting information may impose an additional administrative burden on Users. Additional administrative work would be required in support of the Uniform Network Code Committee as and when proposed changes to the Guidelines were put to that Committee for consideration.

*Development and capital cost and operating cost implications*

0188: It is not anticipated there would be any development costs associated with the introduction of these code ACS services. Users may face additional operating costs associated with the management of additional invoice items.

0188A: Users will be required to develop systems and processes to validate invoices generated as a result of User Pays.

*Consequence for the level of contractual risk of Users*

0188: Under this proposal, the Code ACS Services would be delivered under the same terms and conditions as at present. The reference to the ACS in the Code simply serves to provide a mechanism for charging for these “service” lines. Therefore, the level of contractual risk for Users is unchanged.



0188A: By including these documents as Ancillary Documents to the Code, Users would reduce their risk in comparison to the documents sitting outside of the Code. This risk would be transferred from Shippers to Transporters, however the Proposer believes this risk transfer to be marginal and would be offset by a reduction in associated risks to Transporters.

**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**

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

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

**Advantages**

0188 and 0188A 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 01 April 2008.
- For the selected service lines, Users would only pay for the number of times they use a service and the costs associated with providing those service lines would be targeted on those placing the greatest demand.

0188A Advantages:

- Ensures that documents referenced within the UNC are included within the UNC and subject to appropriate Governance.
- Enables Users and Transporters to propose changes to the documents that are beneficial to the industry and meet the relevant objectives.
- Reduces Shippers' risk associated with having contract terms imposed on them with no ability to change them.
- Reduces Transporters' risk associated with legal action as a result of imposing unfair contract terms.

## **Disadvantages**

### 0188 and 0188A Disadvantages:

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

### 0188A Disadvantages:

- Increases Transporters’ risk associated with Users’ ability to change contract terms through the UNC Governance process, however the impact of this is expected to be marginal as Transporters will be able to block any changes through the UNC Committee.
- Minor cost increase to maintain a formal document and manage modifications which may be proposed.

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

*Written Representations are now sought in respect of this Draft Report.*

**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 either Modification Proposal.

**15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

Either Modification Proposal should be implemented to coincide with the introduction of the User Pays principle and the ACS on 1<sup>st</sup> April 2008.

**16 Implications of implementing this Modification Proposal upon existing**

### **Code Standards of Service**

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

**17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

**18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

**19 Text**

**Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**