

Letter to support UNC Mod 192.

Introduction of DNO obligations to facilitate resolution of unresolved USRVs. Modification Reference Number 0192

1. Introduction

This letter has been prepared on behalf of all DNOs at the request of Ofgem to support the evaluation of Modification Proposal 192.

The details of the Modification Proposal and associated business rules are documented in the final modification report. This letter is solely concerned with the approach to establishing the charges for the services envisaged by the Modification Proposal.

2. Background

The Distribution Workstream (operating as a Development Workgroup) has outlined the business rules that support this Modification Proposal. The business rules are detailed in the Modification Report Version 1.0 (13th August 2008).

The Modification Report defines the service to be undertaken on behalf of the DNOs by the DNOs' agent and the service is to be chargeable as a UNC User Pays Service (a Code Service), with charges detailed in the Agency Charging Statement (ACS).

In the event the modification is approved, the ACS will require modification (in accordance with Standard Special Condition A15 (SSC A15) of the Gas Transporter Licence, to incorporate the services and the charges.

Based upon the information available within the Modification Report it has been concluded that the existing charging methodology, as detailed in the current published ACS, can be applied to the services defined under Modification Proposal 192.

3. Charging Methodology

The objectives of the charging methodology, as specified in SSC A15, are that:

- (a) Charges should, as far as reasonably practicable, reflect the costs in providing the services;
- (b) Charges should not unduly discriminate between or unduly prefer any person or class or classes of person.

The charging methodology for the User Pays Services, detailed in Appendix 2 of the current published ACS, is that the charge for each service will be set based on a forecast of costs to deliver the forecast demand for the service. The costs used to derive the charges will reflect the cost of employees and other expenses that can be directly associated with the provision of the service, plus an appropriate level of overhead (property, systems etc) determined using an activity cost basis methodology.

The methodology for costing and pricing of the User Pays services is outlined in the ACS and the Activity Cost Base methodology (ACB) appended to the ACS, this was approved by Ofgem in March 2008. In short, xoserve calculates the cost

of providing the services (including administration costs and a margin of 6%) and divides it by the forecast demand in order to establish the price. This ensures the prices are, as far as reasonably practicable, cost reflective. xoserve intends to review the demand for User Pays services and the cost of providing these services at least annually to ensure the services remain cost reflective. xoserve derives its demand forecasts from actual demand for the User Pays services coupled with confirming future demand with customers.

4. Demand

The Modification Proposal defines the service as a “default” service i.e. the service is triggered by a Users failure to resolve the USRV within a set time period. No “demand” information has been provided by Users during the Development Workstream discussions. It is difficult to predict the volume of USRVs Users will not take action to resolve and will therefore form the “demand” for the USRV resolution service.

5. The Service

Two USRV resolution services are envisaged:

- Desktop only resolution. The USRV can be resolved with the existing information
- Asset verification visit resolution. The USRV requires desktop activity and a site visit to provide asset information to resolve the USRV.

DNOs will procure the asset verification visit service, the cost of this service will be included in the USRV resolution charge.

6. Charges

In line with the current charging methodology (and based upon the rules defined in the Modification Report) xoserve has calculated an estimate of the charges for a USRV resolution.

The indicative charges have been included within the Modification Report; Desktop £40, Desktop plus asset verification visit £80.

The estimated cost of xoserve providing the USRV resolution service was calculated using an Activity Cost Base methodology. Although the USRV resolution service would be a new service for xoserve, the activities involved in the service are not new and therefore it is possible to apply the ACB techniques. xoserve routinely provide filter failure advice to Users in aiding resolution of their USRVs. In addition xoserve operates a complete service to support DNOs in their UNC obligations to resolve SRVs created by the Must Read process.

The charges for the asset verification visit follow the same cost recovery principles as the desktop activities.

Therefore using the experience and knowledge of performing these activities xoserve has been able to provide the indicative charges.

In the event the Modification Proposal is implemented, the charges for the service will be reviewed on an ongoing basis in accordance with Standard Special Condition A15 (SSC A15) of the Gas Transporter Licence.

As a Code Service, charges will be invoiced in the name of the relevant Gas Transporter who will collect the associated revenue in accordance with Section S of the Transportation Principal Document of the Uniform Network Code and invoices will be issued by xoserve utilising the UNC invoicing processes.

7. Conclusions

The indicative charges for the Modification Proposal have been set based upon the approved charging methodology. In the event the Modification Proposal is approved, the system and process changes required to support the Modification will be finalised and planned, any notice periods e.g. for new charge types etc will be considered and an implementation date set. The ACS will be modified to detail the services and the charges.

I hope this provides all the information required. If you have any further questions please do not hesitate to contact the UNC Panel representatives from the following DNOs:-

Regards

Scotland Gas Networks
Southern Gas Networks
Wales & the West Utilities
Northern Gas Networks
National Grid Distribution