

CODE MODIFICATION PROPOSAL No 0194
Framework for correct apportionment of NDM error
Version 6.0

Date: 16/09/2008

Proposed Implementation Date: 01/12/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Introduction

Modification Proposal 0194 has been amended following discussion at a UNC Development Workgroup over the last 6 months.

This Proposal seeks to establish a **framework** to facilitate: the identification of causes of RbD error; identifying the extent to which differing market sectors contribute to this error; and the reallocation of this error to the relevant sectors.

This Proposal establishes the framework only and it does not make changes to the present level of reapportionment of RbD error.

The current regime

Energy allocation errors arise because of generic market issues such as LDZ CSEPs creation issues or because of problems within Shippers' control such as the detection of theft and late or unregistered sites. The current RbD allocation places all of the costs arising from energy allocation error solely into the SSP sector. Therefore it does not provide any incentive on Shippers in the LSP market to correct errors that are impacting the SSP market, leading to more costs for SSP suppliers and their customers. The existing arrangements do not target costs correctly, resulting in Shippers with poor performance in the LSP market being protected from any liability.

The energy allocation error has not been caused by SSP meter reading or deeming shortfalls, but is a consequence of measurement failures that are applicable to all non-daily metered sites. These measurement errors include;

- LDZ Off take metering errors
- LDZ shrinkage
- LDZ CSEP reconciliation
- Late registration (Unregistered, unconfirmed and unrecorded sites)
- Supply Point metering errors

- Theft (including unreported meter bypasses)

The current situation fails to provide appropriate incentives to all Shippers to identify and eliminate the source of these errors, such as the detection of theft. Further there is presently no mechanism for reviewing and amending the level of RbD that should be apportioned to different customer groups.

This Proposal

This Proposal is to introduce an “**RbD Allocation Table**” into the UNC, and that the UNC be amended such to require that RbD Energy is allocated in accordance with the percentages indicated in the RbD Allocation Table (the Business Rules included within this Proposal provide further detail of the proposed allocation process). We propose that the new table be an annex to TPD Section E, and the appendix to this Proposal provides a draft of how we believe this table could appear in the UNC, including illustrating the initial row and column headings that we believe are required to give effect to this Proposal.

This Proposal does not seek to change the present levels of contribution made. Hence the proposed RbD Allocation Table should initially include a 100% allocation to the SSP sector, as in the table appended to this Proposal.

We propose that, as in the appendix to this Proposal, the RbD Allocation Table should identify the following contributory factors:

- Read submission issues
- Late Confirmations
- Temperature and pressure correction issues
- LDZ CSEP Reconciliation issues
- LDZ shrinkage errors
- Theft (*which may include unreported open by-pass valves*)
- Supply Point metering
- LDZ metering
- End Supply Metering errors

Similarly, we propose that the RbD Allocation Table should identify the following “**classifications**”;

- SSP (Smaller Supply Points)
- SSP (Remote Meter Reading Equipment)

- LSP NDM (Larger Supply Points Non Daily Metered)
- LSP NDM (Remote Meter Reading Equipment)
- LSP DM (Daily Metered Larger Supply Points – including non-mandatory DM)

We believe that the invoicing solution that would be required to deliver the aims of this Modification Proposal could be achieved by the utilisation of an offline invoicing system. This solution could utilise the current ad-hoc invoicing mechanisms and need not provide a significant impact upon systems, processes or procedures and therefore could be relatively straightforward to implement.

Other Considerations

We have elected to exclude the allocation and charging of transportation costs from this Proposal. This effectively decouples the matter of transportation charging from energy allocation. Whilst there are many commonalities between the way that RbD energy costs and RbD transportation costs can be allocated, the two need not be dependent upon each other, and so can be addressed by separate proposals and at separate times. For the avoidance of doubt, therefore, it is intended that this Proposal only applies to energy charges, and that a separate Proposal would need to be raised to deal with the allocation of transportation charges. It is also intended that RbD energy charges continue to be allocated at the system average price, consistent with the application of energy charges across all sectors to date. We would stress that this is not to be confused with the matter of transportation capacity and commodity charges for which different rates are applied across different consumption bands and system offtake quantities.

Business Rules

Current RbD processing is unchanged, thus:

1. At M+1 the Aggregate Reconciliation Quantity will be calculated in respect of Month M.
2. At M+1 the Aggregate Reconciliation Quantity and associated charges will be apportioned to Smaller Supply Point (“SSP”) Users in accordance with current UNC provisions.
3. At M+1 Aggregate Reconciliation Transportation Charge Adjustments and any Aggregate Reconciliation Clearing Values (excluded from the new arrangements under point 5) will be issued to SSP Users in accordance with the values established in step 2.

The new arrangements will comprise:

4. Under this proposal the Aggregate Reconciliation Quantity and Aggregate Reconciliation Clearing Value (excluding those items specified in point 5) from Month M will be apportioned to Supply Point (“SP”) Users in accordance with the Apportionment Methodology. The following items are for consideration
 - i. Timing of apportionment - M+1 or M+2 etc (different to transportation invoice timings)
 - ii. Frequency - monthly / 6 monthly / annually etc
 - iii. Variability of the proportion allocated to market sectors (point 6)

5. Non-standard items outside the scope of apportionment under this proposal
 - i. Application of End of Year Reconciliations
 - ii. Application of Large Offtake Metering Adjustment
 - iii. Annual Shrinkage adjustmentwhich will be apportioned in accordance with the prevailing terms

6. The Apportionment Methodology is that the Aggregate Reconciliation Quantity and Aggregate Reconciliation Clearing value determined pursuant to point 4 will be apportioned:
 - a. to SPs within the following sectors in proportion to their SP Annual Quantity (“AQ”) Market Share within each sector
 - i. SSP a %
 - ii. SSP (with Remote Metering Equipment) b %
 - iii. LSP c %
 - iv. LSP (With Remote Metering Equipment) d %
 - v. Daily Meter Sites e %

For the avoidance of doubt the sum of values a to e (above) will be 100%.

- b. the AQ market share in (a) will be derived in proportion to their SP AQ Market Share in a consistent manner with existing RbD principles (i.e. excluding sites to which G3.4.3 applies).

- c. the above percentages may vary from time to time in accordance with the relevant governance rules (proposed to be pursuant to UNC Modification)
 - i. Modification Proposal 0194 advocates the values detailed in 6a as:
 - a. 100%
 - b. 0%
 - c. 0%
 - d. 0%
 - e. 0%
- d. specific categories of SPs excluded from any application of the Apportionment Methodology and SP Market Shares are:
 - i. NTS Supply Points
 - ii. Special Metering Supply Points (DM)
 - iii. DM CSEPs

- 7. Aggregate Reconciliation Quantities will be grouped into sectors and apportioned to SP market shares in accordance with the existing RbD sector principles (i.e. in accordance with the 1, 6 and 12 month apportionment rules (E7.2.1/7.2.2(f)).
- 8. Reconciliation Invoices will be issued to all Users (SSP and LSP) to reflect net liability (from Month M) as a consequence of the application of the Apportionment Methodology.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

There is presently a clear justification for Urgency on the basis of the significant negative commercial impact upon RbD Shippers of inappropriate cost apportionment.

However at this time we have chosen not to request Urgency to allow for a more inclusive approach towards industry engagement with regard to this Proposal.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

This Proposal has been initiated further to extensive discussion and development under the auspices of the Modification 0194 Development Workgroup.

We recommend that this proposal proceeds directly to consultation.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

A11.1 (a) the efficient and economic operation of the pipe-line system to which this licence relates.

This Proposal provides a framework that shall act as a more precise and efficient mechanism to determine the apportionment of RbD costs to Shippers. This will also enable a broader range of Shipper incentives for identifying and resolving measurement failures that manifest as unreconciled energy and resultant charges to RbD. Such issues have been described earlier.

This includes for example theft, where the engagement of the SSP Shippers has been extensive, but other Shippers minimal.

We believe that as a result the extent to which measurement failures persist will be reduced, and that this will enable more efficient operation of the pipeline system.

A11.1 (d) – the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers.

This Proposal creates a framework which can reduce the extent to which the SSP market sector, and Shippers / Suppliers operating predominately within it, cross subsidise the LSP NDM market sector, and the Shippers / Suppliers operating predominately in it.

The reduction of a cross subsidy between market sectors and individual Shippers / Suppliers operating in them, in our view, better secures effective competition between Shippers and Suppliers. It ensures better targeting of costs and broadens incentives upon all Shippers to tackle the underlying causes of RbD.

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.

This Proposal introduces a framework that enables for better informed decision taking with regard to the apportionment of RbD costs.

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

None identified

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

a) The implications for operation of the System:

We believe that ultimately this Proposal will result in a more concerted effort by industry to tackle the systematic drivers of RbD by broadening the coverage of incentives to include LSP Shippers.

Such focus on improved settlement data, and improvement measurement accuracy should have a positive impact on the operation of the system.

b) The development and capital cost and operating cost implications:

None identified

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

The proposer does not believe that the costs associated with this Modification Proposal are significant enough to warrant special recovery mechanisms.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

None identified

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

None identified

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

None identified

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

None identified

b) The development and capital cost and operating cost implications

None identified

- c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

None identified

- 8 **The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

None identified

- 9 **Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

None identified

- 10 **Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

Advantages

This Proposal seeks to introduce a framework to enable more accurate targeting of RbD costs, and we anticipate that the introduction of this framework shall ultimately lead to the following;

- ◆ A mechanism for reduction in energy consumption, thus delivering carbon benefits. End users able to receive gas without a realistic prospect of paying for it have no incentive to use gas efficiently. Extending incentives for the detection of theft to the LSP suppliers will result in a reduction in theft and so a reduction in inefficient energy usage.
- ◆ A mechanism to improve the ability of Shippers to price accurately by apportioning costs more accurately to them.
- ◆ From the date of its implementation this Proposal will create a mechanism for the removal of the barrier to entry associated with an allocation of costs to the Small Supply Point sector that is inequitable and inaccurate.

This modification provides a mechanism for the removal of an inappropriate and unacceptable cross subsidy of the LSP sector by the predominantly Domestic Small Supply Point Market.

Disadvantages

None identified

- 11 **Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

None received.

12 Detail of all other representations received and considered by the Proposer

None received.

13 Any other matter the Proposer considers needs to be addressed

None.

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Given that this Proposal does not require in itself amendment to systems or processes we believe that it can be implemented immediately.

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) E

Proposer's Representative

Mitch Donnelly

Proposer

British Gas Trading