CODE MODIFICATION PROPOSAL No 0271
Amendment to the SSP – Provisional LSP – SSP Amendment Rules
Version 1.0

Date: 06/11/2009

Proposed Implementation Date: 1 July 2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

The Annual Quantity (AQ) of a Supply Point is supposed to give an accurate view of the amount of gas that a Supply Point would have consumed under average weather conditions in the previous 12 months (UNC TPD G1.6.6). This is then used to form the basis for the initial allocation of energy to Non Daily Metered (NDM) Supply Points. For Larger Supply Points (LSPs) any inaccuracy in the allocation of energy is "corrected" through the submission of subsequent meter readings. However for Smaller Supply Points (SSPs) the AQ remains the driving factor for the allocation of energy.

Every year the Transporters and Shippers undertake a review of the Annual Quantities (AQs) registered to all Supply Points to ensure that any changes in consumption are recorded in the AQ and so ensure that the requirements of G 1.6.6 are met. The Transporters calculate a Provisional Annual Quantity (AQ) and notify Shippers by 31 May for SSPs and by 30 June for LSPs. Shippers then have until 13 August to submit amendments to the Provisional AQs so that a more accurate AQ is registered. UNC TPD G 1.6.4 outlines the rules for when a Shipper can propose to amend the Transporter Provisional AQ however certain parts of G 1.6.4 are not clear and are open to interpretation.

In particular G 1.6.4 (a) states that:

(i) in the case of a Smaller Supply Point where it considers that the Provisional Annual Quantity should be greater or lesser than the Provisional Annual Quantity notified by the Transporter by not less than 20%; or

(ii) in respect of any Larger Supply Point

Following the notification of the Provisional Annual Quantity the Registered User may, subject to paragraph 1.6.4(c) and where the provisions of paragraph 1.6.4(b) apply:

not later than 13 August in the preceding Gas Year notify the Transporter that it considers that the Provisional Annual Quantity does not satisfy the requirement in paragraph 1.6.6 ("User Provisional Annual Quantity").

EDF Energy believes that these requirements mean where the Transporter Provisional AQ is less than 73,200 kWh per annum then the User Provisional AQ has to be at least 20% different to the Transporter Provisional AQ. Where the Transporter Provisional AQ is greater than 73,200 kWh per annum than the User Provisional AQ can be any number that is different to the Transporter Provisional AQ. Conversely we also recognise that these requirements could also be interpreted so that for an SSP the User Provisional AQ has to be at least 20% different to the Transporter Provisional AQ regardless of what the Transporter Provisional AQ is, and that for a LSP the User Provisional AQ can be any number that is different to the Transporter Provisional AQ.

However EDF Energy understands that the Transporters' system uses a different interpretation. In particular we understand that:

- For a SSP site who's Transporter Provisional AQ is less than 73,200 kWh per annum than the User Provisional AQ has to be at least 20% different to the Transporter Provisional AQ.
- For a SSP site whose Transporter Provisional AQ is greater than 73,200 kWh per annum and the User Provisional AQ is less than 73,200 kWh per annum than the User Provisional AQ has to be at least 20% different to the Transporter Provisional AQ.
- For a SSP site whose Transporter Provisional AQ is greater than 73,200 kWh per annum and the User Provisional AQ is greater than 73,200 kWh per annum than the User Provisional AQ can be any number.

For example a site could have an AQ of 62,000 kWh per annum, with a Transporter Provisional AQ of 74,000 kWh per annum. If the User Provisional AQ is between 59,200 kWh per annum and 73,200 kWh per annum then the Transporters' system will reject the User Provisional AQ as it has changed by less than 20%. However if the User Provisional AQ was 73,500 kWh per annum then this would be accepted as it remains in the LSP market. There therefore does not appear a consistent approach to the requirements of G 1.6.4 (a). This also creates tensions with the requirements in G 1.6.6 as Shippers are prevented from registering an accurate AQ due to the application of this 20% rule.

For Shippers this becomes a significant issue as they are charged for all SSP – LSP crossers under Mod 640 rules. Network Code Modification Proposal 640 was implemented on 28 June 2004 and introduced an incentive on Shippers to manage their sites that crossed from SSP to LSP within the year. However the current application of G 1.6.4 (a) results in Shippers who have managed their SSP-LSP crossers within the year being exposed to Mod 640 charges. The only way to avoid these charges is to subsequently submit an AQ Appeal between October and December so that an accurate AQ is set. However this is a manual process for both Shippers and Transporters that

requires the re-nomination and re-confirmation of the site.

The Modification Proposal

It is proposed that the UNC is amended so that were the Provisional Annual Quantity is greater than 73,200 kWh per annum then the User Provisional Annual Quantity can be any number that is different to the Transporter Provisional Annual Quantity. For clarity the requirements contained within UNC TPD section G 1.6.4 (b) and G 1.6.4 (c) and G 1.6.6 would continue to be applied.

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

Not applicable

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.

It is recommended that this proposal is sent to the Distribution Workstream for discussion.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

User Pays – implementation of this proposal would incur costs for the Transporters' Agency as their systems would need to be modified.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Development costs: 50% Shippers 50% Transporters

Transporters will benefit from reduced costs of administrating the AQ Appeals process which is a manual process. In addition this proposal will ensure consistent application of G 1.6.4 (a) – whilst EDF Energy recognises that this section of code is open to interpretation and so debate, the current application does not appear consistent or appropriate it would therefore be wrong to expect Shippers to fund all of these costs. Further it is believed that this proposal will facilitate Standard Special Condition A11.1 (a), (c) and (d). Utilising the current Industry Cost Allocation Matrix (ICAM) in the User Pays Guidance Document this would suggest that a 50/50 split is appropriate.

Operational Costs: TBC at this stage it is not clear whether any incremental operational costs will be incurred.

c) Proposed charge(s) for application of Users Pays charges to Shippers

TBC following discussion at the Distribution Workstream

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

TBC

3 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

Standard Special Condition A11.1 (a): ***the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;***
Annual Quantities form the building block of many of the planning and system security activities of Transporters. Ensuring the registration of accurate Annual Quantities will improve the ability of Transporters to operate the pipeline system in an efficient and economic manner.

Standard Special Condition A11.1 (b): ***so far as is consistent with sub-paragraph (a), the (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 sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***
Standard Licence Condition A5 (available at http://epr.ofgem.gov.uk/index.php?pk=doc380897) requires the Gas Transporters to develop a charging methodology that ensures charges are developed which reflects the costs incurred by the business. Currently both the GDNs' and NTS charging methodologies rely on SOQs, which are derived from AQs to develop charges that are cost reflective. Allowing Shippers to register a more accurate AQ would be consistent with the achievement of this objective.

Standard Special Condition A11.1 (d): ***so far as is consistent with sub-paragraphs (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;***
Improvement in accuracy of Annual Quantities will ensure that energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation. This would be expected to minimise risk for RbD Shippers and reduce costs associated with reconciliation for all Shippers. It is expected that this would facilitate competition between relevant Shippers, minimise uncertainty for new entrants and increase revenue certainty for GDNs. Improvement in accuracy of AQs and consequently SOQs would improve cost targeting.

Standard Special Condition A11.1 (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***

(within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) 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 sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.***

Currently the requirements of G 1.6.4 (a) are open to interpretation and are applied in an inconsistent manner. Implementation of this proposal would provide clarity and ensure that the requirements of G 1.6.4 (a) are applied in a consistent manner thereby facilitating this relevant objective.

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

No implications have been identified

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

a) The implications for operation of the System:

No impact has been identified

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

No costs identified in addition to those covered by User Pays.

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:

None identified

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

Under the current Governance arrangements there is not a co-ordinated process for implementation of a UNC Modification proposal that requires the subsequent alteration to the Agency Charging Statement (ACS). There is therefore a risk that this proposal is implemented prior to approval by Ofgem of an updated ACS. This could therefore create a risk that the Transporters are required to provide a UNC service but do not have a supporting charge for this. However we would note that implementation dates are in the hands of the Gas Transporters are so they are able to manage this risk.

6 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)

No impact identified.

7 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

It is expected that there will be system impacts for Transporters, however we have not been able to identify the extent of these.

Some Shippers may have developed systems that mimic the Transporters systems and so will experience system costs to utilise this new arrangement. However Shippers will be able to choose whether to utilise these arrangements or undertake an AQ Appeal, and so will be able to avoid any system costs if they do not wish to utilise these arrangements.

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

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

Depending on Shipper systems then some Shippers may incur additional administrative and operational costs to utilise this process. However it is expected that these will be less complex and so less costly than utilising the appeal process.

b) The development and capital cost and operating cost implications

Depending on Shipper systems then some Shippers may have to amend their systems to be able to utilise this process. However Shippers could chose not to utilise this process and continue to use the appeals mechanism to ensure that an accurate AQ is registered. They will therefore be able to choose the lowest cost solution to meet their UNC requirements.

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

UNC TPD G 1.6.6 places a requirement on Shippers to ensure than an accurate AQ is registered for their Supply Meter Points. Implementation of this modification proposal will help to facilitate this and so reduce Shipper contractual risk under the UNC.

9 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)

Consumers should benefit from more accurate AQs by ensuring costs are more accurately targeted.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

None identified.

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

Advantages

- Ensures consistent application of requirements of UNC TPD G 1.6.4 (a).
- Potentially reduced RbD volumes by allocating energy to the correct market segment.
- Improved cost targeting by increasing the accuracy of capacity charges and energy allocation.

Disadvantages

- Cost of implementation

12 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)

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

14 Any other matter the Proposer considers needs to be addressed

None identified

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

It would be preferable to have this modification proposal implemented in time for the next annual AQ review.

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) G 1.6.4

Proposer's Representative

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Proposer

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