

## Stage 01: Modification

# 0450B:

## Monthly Revision of Erroneous SSP AQs Outside the User AQ Review Period

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

*The proposed modification seeks to allow Users to amend the erroneous AQs of limited amount of Smaller Supply Points outside of the User AQ Review Period.*



The Proposer recommends that this modification should be assessed by a workgroup



High Impact:  
Smaller Suppliers



Medium Impact:  
Larger Suppliers



Low Impact:  
Xoserve









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# 1 Summary

## Is this a Self-Governance Modification?

We do not believe that this proposal fulfils the criteria for a self-governance modification as there are likely to be impacts related to both allocation of costs and Xoserve's systems should the proposal be implemented.

## Why Change?

The current inability of shippers to amend erroneous SSP AQs outside the User AQ Review Period from 1 June to 30 September negatively affects all shippers but this is particularly pronounced in the case of smaller shippers who face an increased and inaccurate level of charges, gas purchase costs and credit requirements for transportation and balancing as a result. Smaller shippers, who often do not have an approved credit rating, generally have no choice but to post cash as collateral for credit which then ties up working capital and affects their ability to compete. This potentially acts as a barrier to entry and implementation of the proposed solution would reduce this prior to the implementation of Project Nexus. We are concerned that the original proposal (UNC450) has been changed so that it no longer reflects its original intent to help alleviate the disproportionate burden on smaller suppliers created by the current impossibility of amending SSP AQs outside the AQ review period. This proposed modification is therefore intended to provide a solution more in line with that originally envisaged by the original proposal as we do not believe that the new baseline of 50 appeals per month contained within that proposed modification is sufficient to achieve the original proposal's intent of facilitating effective competition between shippers and suppliers.

## Solution

Should this proposal be implemented, shippers with SSP customers in their portfolios will be given the ability to appeal the AQs of certain SSP meter points, where these are erroneous, outside of the User AQ Review period, i.e. from 1 October to 31 May. A 20% rule will apply in each case with a minimum permissible amendment of 4000 kWh, unless the SSP's current AQ is 1, in which case these rules will not apply. Reporting of SSP appeals will be issued quarterly as part of the UNC378 report. This will be treated as user pays and charged monthly based on the SSP market share of each shipper by number of meter points supplied.

## Relevant Objectives

Implementation would facilitate effective competition between shippers and suppliers in line with relevant objective d) as it will result in more appropriate allocation of costs and reduce the disproportionately increased and non-reflective credit and commodity purchase costs which inaccurate SSP AQs and the current inability to amend these outside of the User AQ Review Period result in for smaller shippers.

## Implementation

We would like to request implementation as soon as possible and as directed by the Authority. Given that the solution put in place by this proposal will be superseded by Project Nexus, when this goes live, it is imperative that it be put in place as soon as possible so both shippers and the competitive market can derive the maximum level of benefit in the interim period. Should implementation be possible prior to 1 May 2014, we would request that each eligible shipper's appeal allocation be based on a snapshot taken on the 1<sup>st</sup> of the month before implementation.

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## 2 Why Change?

Currently, AQs for Smaller Supply Points can only be amended during the annual User AQ Review Period. Therefore, if a SSP customer with an erroneous AQ is acquired outside this period, the impact in the meantime can be significant as a site is balanced against its AQ rather than its actual consumption. AQs also determine charges and levels of credit for balancing and transportation. This impact is particularly pronounced for smaller suppliers as they will be exposed to incorrect charges as well as potentially exaggerated costs for gas purchase and credit for balancing and transportation, for which they will often not be able to offer any acceptable collateral other than cash. This ties up working capital and directly impacts on their ability to compete on a level playing field. We are concerned that the original proposal (UNC450) has been changed so that it no longer reflects its original intent to help alleviate the disproportionate burden on smaller suppliers created by the current impossibility of amending SSP AQs outside the AQ review period. This proposed modification is therefore intended to provide a solution more in line with that originally envisaged by the original proposal as we do not believe that the new baseline of 50 appeals per month contained within that proposed modification is sufficient to achieve the original proposal's intent of facilitating effective competition between shippers and suppliers.

## 3 Solution

It is proposed that all Users with at least one Smaller Supply Point in their customer portfolio be given the ability to amend the AQs of a set number of SSP (AQ<73,200 kWhs) meter points each month outside the User AQ Review Period, i.e. between 1 October and 31 May each year.

Xoserve has carried out preliminary analysis and estimates that an industry wide total of 20,000 SSP AQ appeals could be accommodated each month outside of the User AQ Review Period. Attempted appeals will be carried out by means of the T17 dataflow, with Xoserve confirming acceptance or rejection of each. A separate T18 dataflow rejection code will be created in relation to any User exceeding its monthly appeals allowance. For the avoidance of doubt the SSP AQ appeal will, were relevant, be the same as the LSP AQ appeal process

At first implementation the number of appeals available to each User will be calculated as follows:

- i) A snapshot of each shipper SSP portfolio will be taken by Xoserve on:
  - a) The 1<sup>st</sup> working day of September, in order to calculate that shipper's monthly appeal allocation for the period from 1 October to 31 January inclusive;
  - b) The 1<sup>st</sup> working day of January, in order to calculate that shipper's monthly appeal allocation for the period from 1 February to 31 May inclusive.
- ii) Each shipper with 1 or more but less than 50 SSP meter points in its customer portfolio on the date when the snapshot is taken by Xoserve will be allocated a number of monthly SSP AQ appeals outside of the User AQ Review period equivalent to the number of SSP meter points in that portfolio.
- iii) Each shipper with equal to or more than 50 SSP meter points in its customer portfolio on the date when the snapshot is taken by Xoserve will be allocated 200 monthly SSP AQ appeals outside of the User AQ Review period.
- iv) Once a number of monthly appeals has been allocated to each shipper as described in points i) – iii) above, any residual monthly appeal capacity will be allocated to each shipper on the basis of its share of the SSP market by the number of meter points it supplies. The percentage allocation shall be defined to one decimal place.

- v) Xoserve will notify each qualifying shipper of its allocated monthly number of SSP AQ appeals for the relevant period by email within ten working days of each snapshot date.
- vi) For each appeal, a 20% rule will apply with a minimum 4000 kWh amendment. No amendment may be carried out unless it fulfils these two rules, except in the case where the current AQ of the appealed SSP meter point is 1 in which case neither rule applies.
- vii) Appeals will be use it or lose it, i.e. they cannot be traded, sold or reallocated to another shipper and cannot be rolled over or reallocated to another month.
- viii) From 1 June to 30 September inclusive, shippers will make use of the User AQ amendment process as part of the User AQ Review period as laid out in the UNC.

As an example upon initial implementation (all numbers are for illustrative purposes):

- Shipper A has 24 SSP meter points in its customer portfolio on 1 September when the snapshot is taken by Xoserve. It is therefore allocated 24 SSP AQ appeals each month for the period from 1 October to 31 January inclusive.
- 15 shippers have fewer than 50 SSP meter points in their customer portfolios on 1 September, with a total for all 15 shippers of 540 SSP meter points. This gives these 15 shippers a total of 540 SSP AQ appeals during each relevant month (October – January).
- 30 shippers have more than 50 SSP meter points in their customer portfolios on 1 September, so each is assigned 200 SSP AQ appeals during each relevant month (October – January). The baseline total for all 30 shippers is 6,000 SSP AQ appeals for each relevant month.
- Xoserve estimates that it can accommodate 20,000 monthly SSP AQ appeals outside of the User AQ Review Period. In the examples above, 6,540 monthly SSP AQ appeals have already been assigned.  $20,000 - 6,540 = 13,460$  residual unassigned monthly SSP AQ appeals.
- Shipper B has 450,000 SSP meter points in its customer portfolio, which translates to a 2.1% share of the SSP market by number of meter points.  $13,460 \times 0.021 = 282.66$  which is rounded up to 283. This means that Shipper B receives an additional 283 monthly SSP AQ appeals in addition to its baseline allocation of 200 monthly SSP AQ appeals, giving Shipper B a total of 483 SSP AQ appeals during each relevant month (October – January).

Reporting of SSP appeals will be issued quarterly as part of the UNC378 report.

<b>User Pays</b>
<b>Classification of the modification as User Pays, or not, and the justification for such classification.</b>
This modification is classified as User Pays and will be charged monthly on the basis of SSP market share by number of meter points supplied.
<b>Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.</b>
100% to eligible shippers.
<b>Proposed charge(s) for application of User Pays charges to Shippers.</b>
Subject to assessment by Xoserve.

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

To be charged on the basis of SSP market share by number of meter points supplied.

## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Positive
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Implementation would facilitate effective competition between shippers and suppliers in line with relevant objective d) as it will result in more appropriate allocation of costs and reduce the disproportionately increased and non-reflective credit and commodity purchase costs which inaccurate SSP AQs and the current inability to amend these outside of the User AQ Review Period result in for smaller shippers.

## 5 Implementation

We wish to request implementation as soon as possible and as determined by the Authority. Should implementation be possible prior to 1 May 2014, we would request that each eligible shipper's appeal allocation be based on a snapshot taken on the 1<sup>st</sup> of the month before implementation.

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It has been confirmed by Xoserve that implementation will not delay the development of Project Nexus and it is understood that this modification, if implemented, will be superseded by Project Nexus once this goes live.

## 6 Legal Text

Suggested Text

Add to UNC TPD Section G:

*1.6.3. (c) – Each Shipper User may, in accordance with UNC TPD Section G 1.6.4. (a) (i), UNC TPD Section G 1.6.4. (b) (i) and UNC TPD G 1.6.4. (c), request the amendment of the Annual Quantity of a number of SSP meter points within its portfolio in line with the number of appeals allocated to it by Xoserve for that month outside the User AQ Review Period. Xoserve will inform the Shipper User of the acceptance or rejection of each appeal.*

## 7 Recommendation

The Proposer invites the Workgroup to:

- AGREE that this modification should progress to consultation.