

Review Group Report
Review Proposal Reference Number 0178
Reclassification of SSP to Domestic only
Version 0.1

1 Introduction

This Review Group Report is presented for the UNC Modification Panel's consideration. The consensus of attendees is that this Review Group has finished its work in accordance with its Terms of Reference.

The different provisions for domestic and non-domestic properties in the Gas Supplier Licence and the Uniform Network Code have been investigated. These provisions have been examined for any relationship they might have to the allocation of daily quantities and reconciliation.

The Review Group has also investigated, at a high level, the errors associated with allocating daily quantities to Large domestic Supply Points to a non-domestic profile and to Small non-domestic Supply Points to a domestic profile. Two main approaches have been identified in order to reduce the effect of any such errors:

- For all allocation and reconciliation purposes, treating the Large domestic Supply points as part of the domestic EUC (EUC band 1) and the Small non-domestic Supply Points as part of the smallest non-domestic EUC (EUC band 2). A variant on this would be to have unique EUC bands for either or both of these categories.
- The above approach for allocation only. Small non-domestic Supply Points would still form part of the RbD population and Large domestic Supply Points would still be individually reconciled.

Finally, the numbers of Supply Points that would potentially be reclassified have been estimated together with the uncertainties associated with the current data set. The effect that reclassification on UK Link systems has also been discussed.

The Review Group has not reached any consensus that reclassification should take place and in fact the majority of members expressed support for retention of the status quo. It is, however, open to the Proposer or any other Code Party to make a Modification Proposal and the work of this Group would serve to inform development and consultation responses.

2 Review Proposal

E.ON UK raised Review Proposal 0178, for which the Terms of Reference are included as Appendix 1.

3 Review Process

In accordance with the Modification Rules, at its meeting on 18 October 2007, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

4 Areas Reviewed

The Review Group discussions focussed on the following areas:

a) Shipper Licence and UNC Provisions

An Ofgem attendee assisted the Review Group in respect of the Gas Supplier Licence conditions. One licence provision, that might have been relevant to the allocation and reconciliation, has been removed. No other provisions were identified that the Ofgem attendee believed would indicate a change to current processes.

The Transporters, on behalf of the Group, carried out a review of the Uniform Network Code in respect of provisions that depend on the domestic/non-domestic status of any Supply Point. Five references within the UNC were identified but the Review Group agreed that these were not relevant to allocation and reconciliation processes.

The Transporters have different liability arrangements for domestic and non-domestic properties that apply in the event of failure to supply. Currently the status of many Supply Points, within the Small Supply Point population, is unknown and these are assumed to be domestic. As failure to supply provisions for domestic properties are more onerous there is a cost implication for Transporters in respect of properties of unknown status that are in fact non-domestic.

The Supply Point data includes a Market Sector flag that can be set to domestic or non-domestic or be left unset but evidence was given to the Review Group that 33.5% of Supply Points were left unset. The Transporters expressed an intention to make the Market Sector flag an obligatory item and to take steps to populate the current data sets. The Review Group agreed that this exercise would have to be completed before any reclassification but the costs involved should not be associated with reclassification.

b) Investigation of Applicable Profiles and Associated Impacts

A certain amount of daily consumption data is available, which is used to inform the process by which the profiling parameters are set. Included within this data set are some Large domestic and Small non-domestic Supply Points. Whilst an extensive data analysis was not carried out, inspection of the daily profile graphs demonstrated a closer relationship between Supply Points of the same Market sector than between domestic/non-domestic Supply Points within the same EUC band.

However, the effect this has on Shippers' costs was difficult to evaluate. For example, all Large Supply Points, including domestic, are individually reconciled. This means that transportation commodity charges are effectively adjusted at reconciliation.

The only component of reconciliation that might not be appropriately adjusted would be the gas cost element that takes into account the variation of gas prices (SAP) from day to day. A non-domestic profile, for example, tends to demonstrate reduction of demand at week ends when compared with a domestic profile. For this reason, the Transporters carried out an analysis of gas prices for 2006/7. Whilst the weekend average prices were lower than the weekday prices, the difference did not prove to be significant. It was therefore concluded that such price differences did not by themselves justify reclassification of Supply Points. This situation would be even less clear cut in the case of Small non domestic Supply Points which are not individually reconciled.

Even if there were significant differences due to such variations, Users' costs would be affected only to the degree that their portfolio mix differed from Users in general within that LDZ.

c) Numbers of Supply Points Potentially Reclassified

Based on Supply Points that have the Market Sector flag set to non-domestic, the Transporters estimated the number of Small non-domestic Supply Points at 380,000. This compares with 260,000 Large non-domestic Supply Points. On the same basis there are 58,000 Large Domestic Supply Points.

However, the number of Supply Points without a Market Sector flag set is estimated at 8,380,000 (Small Supply Points) and 40,000 (Large Supply Points).

d) Evaluation of Potential Solutions

Three options were considered by the Review Group:

- 1 Reclassification of both Small non-domestic and Large domestic Supply Points. This assumed that the reclassified non-domestic Supply Points would be individually reconciled and the domestic Supply Points would be RbD.
- 2 Reclassification of Small non-domestic Supply Points only ie no change to the Large domestic Supply Points.
- 3 Application of a non domestic profile to Small non-domestic Supply Points and of a domestic profile to Large domestic Supply Points but reconciling based on the AQ threshold ie as now. Thus, the Small non-domestic Supply Points would be RbD.

Changes to processes and systems are associated with all three options. Currently, Supply Points are allocated to the relevant EUC based upon Annual Quantity, LDZ and Winter Annual Ratio. If any of the three options were implemented, allocation would need to take into account the Market Sector flag in some cases.

Further system and operational process implications would be associated with either of the first two options as the number of individually reconciled Supply Points would more than double.

Because of the likely cost of any of the three options and the difficulty in calculating the benefit the Review Group declined to support any change.

4 Recommendation

The Modification Panel is invited to accept this report on the basis that this Review Group has finished its work in accordance with its Terms of Reference. Base on the analysis conducted, it does not recommend that any change in the UNC is required.

Appendix 1 Terms of Reference

Purpose

This Review Proposal seeks to establish the costs, benefits and opportunities associated with reclassifying the current Domestic population of Smaller Supply Points (SSP) as Domestic Only.

Background

The licence requirements for Gas Shippers are linked to a Domestic/Non-Domestic categorisation. Ofgem definition of a Domestic Customer is “a customer supplied or requiring to be supplied with gas at domestic premises but excludes such customer insofar as he is supplied or requires to be supplied at premises other than domestic premises”. The definition of Domestic Premises is outlined in Standard Condition 6 of the licence and is appended here for reference. Licences are issued for Domestic Supply Contracts.

There is a disconnect between the licensing regime and the operation of UNC where a SSP is defined as any Supply Point with an AQ below 73,200 kWh per annum. This leads to Suppliers with Non-Domestic licences still having a requirement to be subject to the RbD Reconciliation mechanism where they supply small commercial premises below the SSP threshold.

Many of the current industry processes are linked to the 73,200 kWh split and to implement a change would be extremely difficult. With the replacement of the UK Link System in 2012 there is an opportunity to review this and to potentially design systems that would provide a flexible approach that matches operational balancing and capacity planning requirements with licence conditions.

There has been a domestic flag stored within UK Link for a number of years. This is not practically used as there is no validation on the flag and in many cases the flag is not populated. It is accepted that there would be an industry overhead in the implementation of a move from an AQ defined split into a premise categorisation and that data validation would be key to ensuring the success. This would be short term, however, and data validation could proceed over the next few years until the UK Link replacement was finalised.

The Review Group would fully discuss the benefits and disadvantages of moving from an AQ based to market sector categorisation across Transporters and Users and any alternative approaches that might be followed, in time to influence the UK Link system changes for 2012 replacement. Although there is some overlap with Review Group 0168, this topic is not specifically limited to SSP impacts and will interest both LSP and SSP shippers.

Scope and Deliverables

The Group is asked to consider, in the context of any change in classification:

1. Identification of alternative solutions and their advantages and disadvantages
2. Operation of the RbD mechanism.
3. Impact on SPA processes.
4. Associated opportunities to introduce additional controls to ensure accurate Domestic AQs.
5. Additional controls on market sector flags and the associated work involved in population, validation and maintenance.
6. Impact on EUC banding, Demand Estimation, nomination and allocation.
7. IGT network impacts that would need consideration.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Other than the details required in order to reach a conclusion on the way forward.

Composition

The Review Group will comprise the following representation

Name	Organisation
John Bradley (Chair)	Joint Office
Mike Berrisford (Secretary)	Joint Office
Sallyann Blackett (Proposer)	E.ON UK
Chris Warner	National Grid Distribution
Fiona Cottam	xoserve
James Boraston	RWE npower
Joanna Ferguson	Northern Gas Networks
Joel Martin	Scotia Gas Networks
Marie Clark	ScottishPower
Mitch Donnelly	Centrica
Phil Broom	Gaz de France
Richard Street	StatoilHydro
Shelley Rouse	StatoilHydro
Stefan Leedham	EDF Energy

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.