

Development Workgroup Report
Framework for correct apportionment of NDM error
Modification Reference Number 0194
Version 2.0

This Development Work Group Report has been prepared by Group Members and follows the format required by the UNC Modification Rules.

The Workgroup considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workgroup does not recommend that the Panel requests the preparation of legal text for this Modification Proposal. The Workgroup also recommends an extended consultation period.

1 The Modification 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 adjustment

which 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.

2 Extent to which implementation of the proposed modification would better facilitate 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;*

Implementation would not be expected to better facilitate this relevant objective.

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;*

Implementation would not be expected to better facilitate this relevant 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;*

This proposal provides a framework which would make it easier for Shippers to propose different allocations, thereby potentially facilitating competition.

However, making it easier to propose different allocations increases risk and uncertainty thereby adversely impacting competition. By introducing a framework based on allocating RBD Energy percentage shares, some DWG Members felt that there would not be an accurate allocation between Shippers were there to be any move away from the present approach, creating perverse incentives that would adversely impact competition.

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.*

This proposal provides a framework which would make it easier for Shippers to propose different allocations; thereby potentially promoting efficiency in the administration of the UNC should subsequent proposals be raised. However, if no such proposals are raised implementation of this proposal would be superfluous and hence implementation would not promote efficient administration of the UNC.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) implications for operation of the System:

No implications for operation of the System have been identified.

b) development and capital cost and operating cost implications:

No development or capital costs have been identified as a result of implementing the proposed framework which retains the existing allocation rules.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Not applicable.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No consequence for price regulation has been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No changes to systems would be required as a result of implementation of this Proposal.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

By making change easier, introducing the proposed framework would increase contractual risk for LSP Shippers in particular, and change the nature of LSP risk as a result of exposure to RBD, while reducing risk for SSP Shippers.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

I&C consumers may be impacted to the extent that I&C contracts are modified to reflect the existence of the framework within the UNC.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the

Modification Proposal

The Group was polarised and neither the advantages nor disadvantages were accepted by all.

Advantages

Advantages identified by some were:

- Provides a framework which simplifies subsequent change to the allocation of RBD Energy
- The Proposal uses the existing RBD mechanism, with which SSP Shippers are familiar

Disadvantages

Disadvantages identified by some were:

- The Proposal uses the existing RBD smear as the basis for reallocation. The issues highlighted in the table are not directly proportional to the RBD smear, which through the percentage mechanism is the basis on which this modification is proposed.
- The Proposal introduces the concept of allocation by percentage market share, which does not reflect the diversity of the I&C market

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workgroup Report)

No written representations have been received.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 Any other matter the Workgroup considers needs to be addressed

Some DWG Members felt that:

- the Group had not paid sufficient attention to the proposed mechanism for allocating energy between sectors, being constrained by the approach within the Proposal; and
- substantial work and analysis remains to be undertaken to establish appropriate numbers, if any change is justified, with which to populate the proposed table.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme for works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation could be immediate on receipt of a decision.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workgroup recommendation regarding implementation of this Modification Proposal

The Workgroup considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workgroup does not recommend that the Panel requests the preparation of legal text for this Modification Proposal. The Workgroup also recommends an extended consultation period.

18. Workgroup's comments on legal text

No text has been provided.

19. Text

Not provided.

Appendix 1

RbD Allocation Table

ISSUE	% Of Rbd Error		APPORTIONMENT OF ERROR					APPORTIONMENT OF RbD					
			% SSP	SSP Remote Metering Reading	%LSP NDM	LSP Remote Metering Reading	% LSP DM	SSP	SSP AMR	LSP NDM	LSP AMR	LSP DM	
Read submission issues		To be populated by future modifications	100%	Not Used	0%	Not Used	0%	100%			0%		0%
Late Confirmations			100%		0%		0%						
Temp & Press I&C (LSP)			100%		0%		0%						
Temp & Press Dom (SSP)			100%		0%		0%						
LDZ CSEP Reconciliation			100%		0%		0%						
LDZ shrinkage			100%		0%		0%						
Theft			100%		0%		0%						
Supply Point metering			100%		0%		0%						
LDZ metering			100%		0%		0%						
End Supply Metering			100%		0%		0%						
TOTAL			100%		100%		0%		0%	100%	0%	0%	

Total Apportionment	
SSP	100.00%
LSP NDM	0.00%
LSP DM	0.00%

Joint Office of Gas Transporters
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