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Tim Davies  
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5<sup>th</sup> June 2009

Dear Tim

**SUBJECT: Gazprom Marketing and Trading –Retail consultation response to  
Modification 0224**

Gazprom Marketing and Trading-Retail (GMTR) supports the implementation of modification 0224. We have structured this modification response to mirror the draft modification report for ease of comparison.

***1. The Modification Proposal***

This modification looks to allow Users to nominate Daily Metered Sites (DM Elective or DME) that will use Shipper AMR equipment, with the aim of submitting daily meter readings to the Transporters for the purposes of settlement and billing.

The rollout of AMR and Smart metering to all customers by the year 2020, is widely recognised as bringing sizable benefits to the Gas Market, including but not limited to improvements in data provision. Whilst all AMR and Smart Metering sites will benefit from this increase in data quality, the current UNC regime prevents Shippers from using this information to inform the Transporter of an individual's measurement consumption for a particular day; the information can be used to improve system estimates of consumption.

To allow this technology to be fully utilised, and to recognise evolution in the market, it is appropriate to allow Shippers to select certain sites to be daily settled. This will allow Shippers to take advantage of the new generation of metering technology to improve the accuracy of their gas procurement, hence reducing costs overall, and ultimately reducing costs to those customers who become DME. This improvement in Shipper forecast accuracy and procurement will also reduce Transporter costs as demand forecasting is improved and residual balancing actions reduced in frequency and magnitude.

**Current take-up of voluntary DM (DMSP) service**

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We agree with the proposer that the current DM regime is not attractive to consumers. We would suggest that this is due to the high level of cost compared to their current service, and the lack of competition around such a service. A Shipper-led competitive service will result in lower prices and higher level of exposure of such a service to consumers.

## **Business Rules**

### *Rollout*

During development of this modification, xoserve has indicated that the costs of providing a system that allows all eligible sites (see below) to instantly switch to DME status may be prohibitive. As it is difficult to predict the likely take-up of this service, it seems appropriate therefore that a phased rollout is employed to reduce costs. The phase rollout plan is satisfactory and we support the timescales proposed, but in the event of significant over-subscription, the rollout plan can be revisited.

### *Eligibility for DM Elective DME*

The proposed eligibility criteria mirrors the proposed licence condition of Suppliers to supply all customer sites with an AQ greater than 732,000 kWh. It is unlikely that customers below that threshold will initially wish to become DME and so the eligibility criteria are appropriate to ensure that costs to consumers in operating this process are minimised.

### *Registration as DM Elective DME*

It is our understanding that this process is looking to minimise the impact on the current systems operated by xoserve, with DME effectively being classified as a Shipper-controlled (as opposed to a transporter controlled) daily read site. This brings benefits in terms of simplicity, cost avoidance and allow a familiar process to be used. We agree that the business rules regarding registration should follow the DM registration process currently used, and support this aspect of the proposal.

### *Read Provision*

In line with our comments above, it is appropriate that the handling of reads should generally mirror the current DM read process, including an incentive charge to ensure that reads are submitted. There should be recognition however that this is an entirely new process for Shippers, that there will be some teething troubles at the beginning and that those Shippers who are pioneering this new market should not be unduly penalised. We note that the proposed process provides for staggered performance targets to reflect this fact, and we support their inclusion.

### *Shipper Transfer*

We support the proposed Shipper transfer process, including the rules for providing estimated reads.

### *Reconciliation and Resynchronisation*

We support the proposed business rules with regard to reconciliation and resynchronisation.

### *Check Readings and Meter Inspection*

We support the proposed business rules with regard to check readings and meter inspection.

### *Datalogger faults*

We support the proposed business rules with regard to datalogger faults.



#### *DME Ratchets*

In line with our comments above with regard to read provision, we believe it appropriate that the incentive regime regarding DM should apply to DMEs, but with a recognition that Shippers who lead development in this field should not be unduly penalised. We therefore agree that that ratchet charges should be applied to DMEs, but only after the 12 months of operation.

#### *Change of Classification*

We agree with the concept that sites once registered as DMEs should remain so, until re-nominated as NDM by the Shipper. This will avoid significant costs in a dynamic regime, with the proposed incentive regime ensuring that Shippers classify sites appropriately.

### **2. User Pays**

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

We agree that this modification should be classified as User Pays as the primary benefit is for customers and Shippers. We furthermore agree that the schedule of charges should be included within Agency Charging Statement.

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

We agree that costs should be 100% allocated to Shippers.

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

As all NDM sites with an AQ of greater than 732,000 kWh will be eligible for DME status, it seems appropriate that the costs for developing this framework should be levied on EUC bands 4-8. Considering the proposed unit charge (around £10), it is preferable to use a simple charging mechanism to avoid incurring costs in recovering the charge, and we support the proposed fixed levy to recover development costs.

Going forward, it seems appropriate that any DME costs are charged to those users, though this should be monitored to prevent excessive costs being levied on a small population in the event of lower than expected take-up.

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

We have not yet seen detailed costs, so we cannot comment in this area.

### **3. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

#### ***Standard Special Condition A 11.1 (a): the efficient and economic operation of the pipeline system to which this licence relates;***

We agree with the proposer that increasing the number of Supply points who are Daily Metered will increase the amount of current, real-time information available to the transporters and so improve system operations.

**Standard Special Condition A 11.1 (b): so far as is consistent with sub-paragraph (a), the 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;**

We do not believe that implementation of this Proposal will better facilitate this relevant objective

**Standard Special Condition A 11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;**

We agree with the proposer that this modification will reduce the number of NDM reconciliations, improving costs targeting.

**Standard Special Condition A 11.1 (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;**

We agree with the proposer that this modification will allow more products to be made available to the market, increase possibility of demand-side response and improve cost-targeting to the appropriate customer.

**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... are satisfied as respects the availability of gas to their domestic customers;**

Implementation of this proposal 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;**

Implementation of this proposal would not be expected to better facilitate this relevant objective  
**4. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

Increasing the number of Daily Metered sites will improve the level of demand side response that is possible.

**5. The implications for Transporters and each Transporter of implementing the Modification Proposal, including:**

**a) Implications for operation of the system**

We do not believe that implementation of these Proposals will present such implications

**b) Development and capital cost and operating cost implications**



We would expect these costs to be recovered in line with the ACS.

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

We would expect these costs to be recovered in line with the ACS.

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

We do not believe there would be any consequences on price regulation from the implementation of this Proposal.

***6. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposals.***

No such consequence is anticipated.

***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***

We would expect there to be some impact on xoserve systems, but we do not have sufficient information to comment on whether any proposed changes are suitable.

***8. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk:***

***a) Administrative and operational implications***

There will be a limited amount of additional costs to Users in handling DME customers.

***b) Development and capital cost and operating cost implications***

All eligible sites will incur a minor cost, whether its wishes to take up the service or not.

***c) Consequence for the level of contractual risk***

This process will allow Shippers to reduce their contractual risk with customers who become DME.

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

This process will allow consumers to become daily balanced at a potentially lower cost than at present.

***10. 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 implications identified.

**11. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**a) Advantages**

We agree with the proposer that this modification will create a new product offering to consumers and improve market efficiency by increasing the level of real-time data to Transporters, Shippers and consumers. We also agree that a phased rollout will reduce potentially unnecessary costs to the industry, and will provide time for the industry to gauge likely take up and develop the market framework accordingly.

**b) Disadvantages**

Whilst we acknowledge that this modification will reduce the sampling size of the NDM customer base, we propose that increasing the number of sites actually metered as opposed to estimated is overall a benefit to the industry.

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

This modification is not expected to facilitate this objective.

**14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

This modification is not required for this purpose.

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

There will be a requirement on xoserve to adjust their systems to accommodate this process but we do not have sufficient information to comment on whether any proposed changes are suitable..

**16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

We cannot comment on any proposed implementation timetable.

**17 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.

I trust these comments are helpful. If you have any queries regarding this response please do not hesitate to contact me directly on 0161 838 9533.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Glenn Nixon', with a long horizontal flourish extending to the right.

Glenn Nixon  
Head of Operations  
GM&T Retail