

Stage 01: Proposal

Draft:

Fixed parameters for determining Shipper contribution to Unidentified Gas

This modification proposes to move to fixed annual gas price and market share for determining Shipper contribution to Unidentified Gas.



The Proposer recommends
The modification is referred to a Workgroup for Assessment



High Impact:
Shippers, Transporters



Medium Impact:
Customers



Low Impact:
None

What stage is this document in the process?

01

Proposal

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

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Modification

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About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 21 July 2011. The Panel will consider the Proposer's recommendation, and agree whether this modification should be referred to a Workgroup for assessment.



3 Any questions?

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1 Summary

Is this a Self-Governance Modification

This modification will have a material impact on how the Transporters determine a Shipper's contribution to Unidentified Gas, as well as its resulting benefit, so is not suitable to be considered under the Self-Governance Process.

Why Change?

The AUGGE process will determine a fixed quantity of Unidentified Gas that is attributable to the LSP NDM sector, but the resulting financial adjusting will use rolling monthly SAP and market shares. This has resulted in suppliers having difficulty in pricing the Unidentified Gas adjustment into their market offerings, increasing uncertainty and risk to shippers. This uncertainty may mean that SSP NDM customers will not receive the full benefit of the Unidentified Gas payment from the LSP NDM sector

Solution

To remove this uncertainty it is proposed that:

- Replace the rolling SAP calculation with a fixed annual reference price created using industry prices.
- Replace the rolling SPC Class volume calculation with an annual SPC Class volume calculation as of 1st October.

With these two parameters fixed, it will be possible to create a fixed p/kWh charge that can be applied to a User's Unidentified Gas Quantity for each reconciliation billing period.

Impacts & Costs

The resulting process will be simpler to administer for both the transporters and shippers. There will also be less uncertainty to shippers on what the financial impact of the Unidentified Gas process will be. This will reduce costs to customers as no risk premiums will need to be built in prices. Finally, the Unidentified Gas cost will be transparent to customers, ensuring straight forward pass through to LSP and SSP customers.

In terms of cost, we do not believe there are material costs associated with this modification, as it proposes a replacement of rolling variables with fixed parameters.

Implementation

We believe that this modification should be implemented in time to allow the new calculation methodology to be used in determining the estimated rates to be published by 1st November 2011.

The Case for Change

This modification will remove uncertainty in the current process, reducing overall risk to customers and promoting transparency.

Recommendations

We propose that this modification goes for assessment at a workgroup.

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2 Why Change?

The AUGGE will determine a fixed amount of Unidentified Gas attributable to the LSP NDM sector by the end of September. This volume of gas will then be converted into a financial amount using a rolling average SAP for the applicable reconciliation period. The total market sector volume will also vary for each reconciliation period.

The variability of these two factors means it is difficult for shippers to price the resulting debits and credits into their prices. This has two negative impacts. It is difficult for shippers to determine a unit price for Unidentified Gas, which can be passed onto LSP NDM customers. For pass through contracts, this will mean that an initial estimate will need to be corrected over time as the actual Unidentified Gas charges become known. This results in significant additional risk and uncertainty for such customers, as well as significant costs for suppliers in administering this reconciliation.

More generally, this uncertainty also has a detrimental impact on LSP and SSP NDM customers who do not operate on pass-through contracts. The current unpredictability makes it difficult for the financial cost of Unidentified Gas to be accurately priced to the LSP NDM sector or the resulting credit to be fully passed onto SSP NDM customers.

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3 Solution

It is proposed that the rolling monthly calculations of Unidentified Gas price and SPC Class volume are instead replaced with an annual process, undertaken after the AUGÉ has finalised the Unidentified Gas Quantity, but before the transporters have published the indicative unit rates (i:e between October and November each year). These fixed volumes would be used for the forthcoming AUGÉ Year (i:e starting from the following April).

The net effect of fixing these parameters would be to create a pence per unit AQ "unit rate" which will correspond to the debits and credits shipper will receive (though we recognise that the detailed process the transporters operate does not involve applying a unit rate to a shipper's portfolio). This unit rate would be published by the transporters in accordance with section 9 of the AUGÉ guidelines.

Detailed Solution

In detail the fixed parameters would be determined as follows:

- The Unidentified Gas price for the year would be derived by mean averaging the price daily average closing prices over the month of September for the 4 quarters for the period commencing 1st April of the following year as published by ICIS. (termed "Unidentified Gas Price"). This price, like SAP
- The SPC Class volumes would be determined for the coming year by taking a snapshot of market sector volumes at 1st October (termed "Annual SPC Class Volume").

The impact on the current Unidentified Gas apportionment process would be:

- User SPC Aggregate AQ Proportion for each reconciliation period would be derived by dividing each User's SPC Aggregate AQ by the corresponding Annual SPC Class Volume (pro-rated for the length of the reconciliation period). This would replace the process detailed in UNC TPD E10.5.1(b).
- The User Unidentified Gas Amount would be determined by multiplying the User Unidentified Gas Quantity by the Unidentified Gas Price. This would replace the process detailed in UNC TPD E10.5.2(b).

The transporters would determine the indicative rates for each applicable SPC Class by dividing the Unidentified Gas price by the corresponding Annual SPC Class Volume.

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4 Relevant Objectives

Implementation is expected to better facilitate the achievement of **Relevant Objectives a, b, c, d, e and f.**

Proposer's view of the benefits against the Code Relevant Objectives	
Description of 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.	Yes, see below.
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

Relevant Objective (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.

Fixing the parameters used to determine the apportionment of Unidentified Gas will allow a unit rate to be created, that shippers can apply to their own portfolio. This will provide certainty on the resulting impact of cashflows, allowing shippers to accurately price Unidentified Gas costs to LSP and DM customers, and pass on the corresponding cost reductions to SSP NDM customers.

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5 Impacts and Costs

Consideration of Wider Industry Impacts

Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
[We do not believe that this modification will result in any significant change to Xoserve processes and so do not believe it is User Pays].	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
Not applicable	
Proposed charge(s) for application of Users Pays charges to Shippers	
Not applicable	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
Not applicable	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	None
Operational Processes	None
User Pays implications	None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	Users will be able to price Unidentified Gas charges into their products with greater certainty, so reducing risk costs.
Development, capital and operating costs	None
Contractual risks	Charge variability will be reduced. This makes any cost pass through more predictable so reducing the risk of non-payment

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Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

0565 Transco

Proposal for Revision of Network Code Standards of Service

at the following location:

<http://www.gasgovernance.com/networkcodearchive/551-575/>

Impact on Users	
Legislative, regulatory and contractual obligations and relationships	None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	None
Development, capital and operating costs	None
Recovery of costs	None
Price regulation	None
Contractual risks	None
Legislative, regulatory and contractual obligations and relationships	None
Standards of service	None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	None
UNC Committees	None
General administration	Moving to a fixed parameter will simplify and reduce the administration undertaken by the Transporter's agent when administering the AUGÉ process.

Impact on Code	
Code section	Potential impact
TPD E10.5	Change to Unidentified Gas Amount apportionment calculations.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None

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Impact on UNC Related Documents and Other Referenced Documents	
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None

<p>Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties</p>	<p>The potential volatility in the Unidentified Gas charge apportionment process will be removed, so ensuring that gas costs will be more predictable and reducing the exposure consumers have through their suppliers to volatile price variations.</p> <p>Reducing the variability of the Unidentified Gas apportionment process will also improve the predictability of an individual's supplier's resulting credit for their SSP portfolio, allowing it to be passed onto their SSP customers.</p>
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6 Implementation

To allow sufficient time for the new fixed unit rate to be taken into account by suppliers for the start of the reallocation process in April 2012, it would seem sensible that the indicative rates to be published by the transporters in November 2011 use this new calculation methodology. We would expect an implementation date of October 2011 would give sufficient time to allow this.

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7 The Case for Change

Advantages

- Greater Transparency of impact of Unidentified Gas on customers.
- Reduction in risk on Unidentified Gas costs, reducing costs.
- Enables straight forward pass through of costs and benefits to customers.

Disadvantages

None identified

8 Legal Text

Text, either suggested or formal, should be inserted at this point. The status of this text should also be stated.

9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 03xx progress to a Workgroup.

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