



0385:


Inclusion of DNOs as Users in User Pays Arrangements


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

This Proposal would enable an apportionment of User Pays implementation costs amongst all UNC parties to be included within User Pays Modification Proposals.

 Panel determined this self-governance modification be implemented

 High Impact: -

 Medium Impact:
DNO Users

 Low Impact: -

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About this document:

The Panel will consider the views presented and decide whether or not this self-governance change should be made.

	
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1 Summary

Is this a Self Governance Modification?

The Modification Panel determined that this is a self-governance modification.

Why Change?

Due to the definition of "User" in the UNC Modification Rules, it is not possible at present for a UNC Party to propose an apportionment of implementation costs in a User Pays Modification Proposal specifically to DNO Users (they can be allocated to DNOs as transporters, but not as Users).

Solution

It is proposed to amend the UNC Modification Rules such that a DNO User may be regarded as a "User" for the purposes of a User Pays Modification Proposal.

Impacts & Costs

In the event of implementation of this modification, UNC parties will be able to propose an apportionment of, and subsequently allocate, implementation costs specifically to a greater range of UNC Parties in a User Pays Modification Proposal.

There are no systems or ongoing costs associated with the implementation of this modification.

Payment of any resultant User Pays charges by DNO Users (pursuant to the implementation of a User Pays Modification) would be managed in accordance with the existing agreement between the Transporters in respect of the Transporter Agency as opposed to such charges being levied in accordance with Section S of the UNC Transportation Principal Document.

Implementation

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

The Case for Change

By supporting a greater range of cost allocations, implementation could increase cost reflectivity and help to avoid inappropriate cross-subsidies.

2 Why Change?

Section 6.2.5(c) of the UNC Modification Rules requires that where a User Pays Modification Proposal proposes that Users pay a proportion of the implementation costs, the Proposal should contain:

- (i) an apportionment of the implementation costs between Users and Transporters; and
- (ii) an apportionment of the implementation costs between Users.

The definition of a User in the UNC Modification Rules is as follows:

“User”: for the purposes of these Rules, references to a User in the context of an Individual Network Code Modification Proposal includes “Relevant Shipper” and in all contexts excludes DNO User.”

Future modifications to the UNC would benefit from the ability to attribute cost apportionment between DNO Users and Shipper Users as one class of beneficiaries to a User Pays Proposal, or specifically to DNO Users, in order to demonstrate that subsequent User Pays costs are to be allocated on a non-discriminatory basis between all potential beneficiaries of such a modification.

In the event that a modification is expected to benefit DNO Users, Shipper Users and National Grid NTS to different degrees, it would be appropriate for the Modification Rules to facilitate an apportionment of the costs of its implementation among all these parties in accordance with the User Pays Guidance Document.

However, at present the definition of User in the Modification Rules restricts a Proposer’s ability to describe and propose all possible cost allocations where modifications seek to identify DNO Users as a unique beneficiary or as a beneficiary arising through being part of a User group which shares the benefit equally.

Subsequent to the implementation of Modification 0195AV, DNOs have the ability to apply for, and be registered as holding, NTS Exit Capacity to the same extent as Shipper Users and accordingly the UNC Modification Rules may need to recognise that there is potential for User Pays Modification Proposals (i.e. those aimed at changing the NTS Exit Capacity Arrangements) to enable an apportionment of implementation costs between DNO Users as well as Shippers Users.

Examples of where such a specific allocation of costs may be, or may have been necessary are as follows:

- Modification Proposal 0351 ‘Enduring Exit Overruns – Deemed Applications’

Although this Proposal was withdrawn, it advocated the introduction of terms related to the booking of Enduring Annual NTS Exit (Flat) Capacity at NTS Exit Points. Accordingly, the proposer believed the Proposal would have potentially provided a clear benefit for all relevant parties; DNO Users, Shipper Users (at relevant NTS Exit Points) and National Grid NTS. Therefore, specific allocation of these costs between respective parties may have been required to reflect the level

of benefit each party (or group of parties) would potentially have obtained.

- Modification Proposal 0381 'Removal of the NTS Exit (Flat) Capacity "deemed application" process'.

Subsequent to the withdrawal of Modification Proposal 0351, Wales & West Utilities has raised this Proposal which seeks to remove the automatic (deemed) application for Enduring NTS Exit (Flat) Capacity in Year+4 that is triggered from a Chargeable NTS Exit (Flat) Capacity Overrun. Within the description of the Proposal it is proposed that User Pays costs are apportioned as follows:

"As this Modification Proposal relates to NTS Exit (Flat) Capacity and UNC TPD Section B, for the purposes of User Pays, DNOs are classified here as Users and National Grid NTS are the only relevant Gas Transporter.

In accordance with the principles set out in the User Pays Guidance the Proposer suggests that, if there are any central system costs, the proposed split of implementation costs is 50:50 between Users (Shippers & DNOs) and NG NTS."

While this suggests that the desired outcome can be achieved within the existing UNC obligations, amending the definition of User would remove any element of doubt and provide clarity regarding coverage.

3 Solution

It is proposed to amend the UNC Modification Rules such that DNO Users may be regarded as a "User" where a User Pays Modification Proposal proposes to apportion costs specifically to them.

All Transporters have agreed that in the event of implementation, a change to paragraph 1.3 of the Agency Charging Statement will be pursued to provide that User Pays costs incurred by DNO Users will be payable pursuant to the existing agreement between the Transporters in respect of the Transporter Agency.

4 Relevant Objectives

Implementation will better facilitate the achievement of Relevant Objectives c, d, 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.	See below
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.	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	See below

Relevant objective (c)

This modification would more effectively demonstrate that charges for User Pays Services do not unduly discriminate or unduly prefer any person or class of persons as required by Licence Condition A15(11) of the DN and NTS Licences. From this perspective this licence condition would be more efficiently (and transparently) discharged.

Relevant objective d(iii)

This modification will enhance effective competition between DNOs and between DNOs and relevant shippers by enabling cost apportionment proposals for User Pays charges to be applied to DNO Users as well as Shipper Users, thus creating visibility for the industry that such apportionment mechanisms are being applied on a non-discriminatory and, potentially, more cost reflective basis. Ensuring appropriate allocations of costs between parties is consistent with securing effective competition.

Relevant Objective (f)

This modification will promote efficiency in the implementation and administration of the UNC by removing a potential barrier to the transparent apportionment of costs within a User Pays Modification Proposal to all Users who benefit from such a modification.

Wales & West Utilities do not believe that implementation would have any impact (negative or positive) on the achievement of the relevant objectives and disagree with the points.

5 Impacts and Costs

Consideration of Wider Industry Impacts

The Workgroup does not consider the modification has any wider industry impacts as it only impacts the UNC.

Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
This is not a User Pays Modification Proposal since no central system changes are involved.	
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	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> None
User Pays implications	<ul style="list-style-type: none"> It will be possible for UNC parties to propose apportionment of implementation costs of a User Pays Modification Proposal specifically to, and among, DNO Users as well as Shipper Users.

Impact on Users

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> • None
Development, capital and operating costs	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • None. The level of Shipper User contributions to User Pays Modification Proposals would be unchanged by this Proposal.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> • None
Development, capital and operating costs	<ul style="list-style-type: none"> • Where DNOs Users are identified as beneficiaries of a User Pays Proposal, the aggregate level of DNO contributions will be unchanged; however there will be greater transparency within a Modification Proposal regarding DNO's contributions.
Recovery of costs	<ul style="list-style-type: none"> • None
Price regulation	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None
Standards of service	<ul style="list-style-type: none"> • None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> • Amendment to the definition of "User" to include DNO Users where a Proposal proposes to apportion User Pays charges specifically to DNOs as a separate class of User or as a group of Users which include Shipper Users.
UNC Committees	<ul style="list-style-type: none"> • None
General administration	<ul style="list-style-type: none"> • None

Impact on Code	
Code section	Potential impact
Modification Rules	As stated under 'Impact on Code Administration' above.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
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
Agency Charging Statement (TPD B1.7.11)	All Transporters have agreed that, in the event of implementation, changes to this document will be required to reflect the preferred approach to the settlement of DNO User Pays charges as described in this Proposal.

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

Impact on Core Industry Documents and other documents	
Gas Transporter Licence	This proposal will more effectively demonstrate that charges for User Pays Services do not unduly discriminate or unduly prefer any person or class of persons as required by Licence Condition A15(11) of the DN and NTS Licences.

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

6 Implementation

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

7 The Case for Change

None in addition to that identified above.

8 Legal Text

National Grid NTS has provided the following text:

UNIFORM NETWORK CODE - MODIFICATION RULES

Paragraph 2.1 Defined Terms

Amend the definition of User to read as follows:

“ **User**”: for the purposes of these Rules references to a User:

- (a) in the context of an Individual Network Code Modification Proposal, includes
 - (i) a Relevant Shipper;
 - (ii) in the context of the definition of Relevant Transporter, sub paragraph (b), a DNO User;
- (b) in the context of a User Pays Modification Proposal that includes a proposal for payment of the User Pays Implementation Costs, or a proportion of them, to be made by a DNO User, includes a DNO User; and
- (c) in all other contexts excludes a DNO User;”

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

Section B

Amend paragraph 1.7.14 to read as follows:

“Where any User Pays Modification is not implemented but it is determined that a portion of the Implementation Costs should be paid by Users in accordance with the Users Pays Charge set out in the Agency Charging Statement, such User Pays Charge shall be ~~invoiced in accordance with Section S.~~ payable as set out in the Agency Charging Statement.”

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
National Grid NTS	Supports
National Grid Distribution	Supports
Northern Gas Networks	Comments
Scotia Gas Networks	Neutral
Wales & West Utilities	Neutral

Of the five representations received two supported implementation, two remained neutral and one provided comments.

Summary Comments

While National Grid NTS appreciated that this proposal may appear to satisfy the Self-Governance Criteria, it considered that the wider impacts resulting from the implementation of this proposal might have a material positive impact on competition and the UNC Modification Rules. As such, it believed that this Modification Proposal may not satisfy the Self Governance criteria. On the assumption that the proposal remained a Self-Governance Modification Proposal, National Grid NTS considered that the implementation of this proposal can be made 15 days after the Panel determination date (eg 08 December 2011 based on a Panel determination date of 17 November 2011).

Northern Gas Networks (NGN) was not convinced that the costs cannot be directly attributed to DNOs as Users rather than DNOs as Transporters, they believed that cost allocation between National Grid Transmission and the DNOs can be achieved appropriately by the existing mechanisms within the Xoserve ASA. However, by changing the UNC Modification Rules to allow a DNO User to be regarded as a 'User' for the purposes of a User Pays Modification it will improve transparency of the cost reflectivity for National Grid NTS. The billing arrangements through the ASA in this case are appropriate and NGN support this approach to the resolution of the perceived need for changes.

As DNOs can already be classified as users when necessary within the modification rules, Scotia Gas Networks were neutral to the change. Similarly, Wales & West Utilities believe that the ability to classify Distribution Networks as a 'User' for User Pays already happens and this modification is unnecessary.

10 Panel Discussions

The Panel Chair summarised that this modification seeks to include DNO Users as a category to whom charges can be attributed in a User Pays Modification. This would support modifications being transparent and explicit about how charges are to be allocated between parties, including DNO Users.

Some Members felt that, by increasing transparency and supporting allocations between Shipper users and DNO Users, implementation might be expected to help demonstrate that charges for User Pays Services do not unduly discriminate or unduly prefer any person or class of persons as required by Licence Condition A15(11) of the DN and NTS Licences. From this perspective this licence condition may be more efficiently (and transparently) discharged as a result of implementation.

Other Members did not believe there was any barrier to transparency nor to allocation of costs to DNOs as Users under the UNC as it stands, and noted that such allocations have been proposed and implemented. As such, they did not believe it could be demonstrated that implementation would have any impact on the Relevant Objectives.

Panel Members then voted and, with eight votes in favour and none against, determined that Modification 0385 should be implemented.

11 Recommendation

Panel Recommendation

Having considered the 0385 Modification Report, the Panel determined:

- that proposed self-governance Modification 0385 should be made.