




## Stage 04: Final Modification Report


# 0428 and 0428A: Single Meter Supply Points


Since the inception of competition in gas supply, gas transportation charges have been calculated by grouping meter points into supply points, using rules, which reflect the commercial arrangements downstream of the ECV. Modification 0428 seeks to revise that commercial construct and establish a rule that would only permit one meter point per supply point, irrespective of any downstream relationship. However, Modification 0428A applies these amended commercial arrangements to new or amended supply points only.

 Panel recommended implementation of Modification 0428  
 Panel recommended implementation of Modification 0428A

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 High Impact: -

 Medium Impact: Shippers/Customers and Transporters

 Low Impact: -

At what stage is this document in the process?

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

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## About this document:

This Final Modification Report will be presented to the Panel on 20 June 2013.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.

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## 1 Summary

### Are these Self-Governance Modifications?

The Modification Panel determined that these are not self-governance modifications.

### Why Change?

Modification 0428 seeks to construct and establish a rule that would only permit one meter point per supply point.

There are a number of reasons why there is a need to change the current arrangements.

The current arrangements:

- Are not cost reflective;
- Are cumbersome to administer; and,
- Are complex to systematise.

Modification 0428A seeks to apply the same rules as Modification 0428, however these rules would only apply to new or amended aggregated supply points, as the removal of existing aggregated supply points may lead to increased charges for many customers currently benefiting from these configurations.

### Solution

#### 0428

From a date to be determined to coincide with the go-live date for Nexus, "Nexus go-live date", a Supply Point shall only contain one Supply Meter Point.

As a precursor to the implementation of this rule, with effect from 1st April 2014, a Supply Meter Point would neither be permitted to be added to an existing multi-metered Supply Point, nor combined with another single supply Meter Point, to create a new multi-meter Supply Point.

#### 0428A

We propose that no further multi-metered Supply Points can be created, but any existing multi-metered configurations can remain so unless the customer agrees to the change. In effect this retains the status quo for these customers. The only change will be to allow such sites to be reconfigured to remove defunct meter points.

## Relevant Objectives

### 0428

Some workgroup participants consider this modification furthers Relevant Objectives (c) and (d) as it will lead to more transparency and improved cost targeting for transportation charges and benefit competition.

### 0428A

Some workgroup participants consider this modification will impact positively on Relevant Objectives (c) and (d) as cost reflective charging will prevent cross subsidy from one market sector to the other. Customers who have made decisions regarding their gas supply in good faith will not be penalised by changes to the basis of transportation charges and capacity.

## Implementation

No implementation timescales are proposed for either modification as they may be indirectly impacted by the Nexus go-live date. It would be desirable if Modification 0428 could be implemented by 01 April 2014, in the knowledge that prior to the new system implementation, all existing multi meter supply points would have to be disaggregated and reconfirmed as Single Supply Meter Points prior to the Nexus go-live date. For Modification 0428A, it would be desirable for implementation to be aligned with the Nexus go-live date.

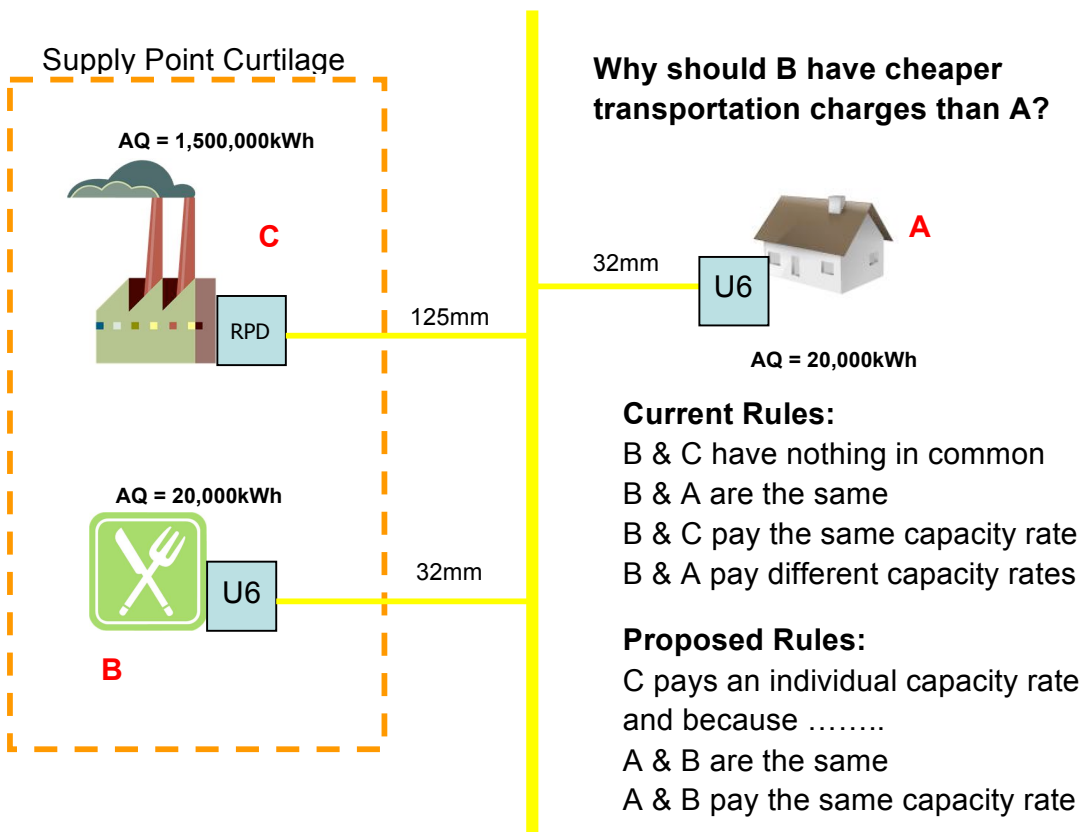
## 2 Why Change?

### Modification 0428

Proposes to remove the practice of aggregating Meter Points into Supply Points for the purposes of calculating transportation charges.

### Reasons

1. Aggregating Meter Points into Supply Points does not result in a cost reflective capacity rates for the meters at the aggregated Supply Points. The diagram example below illustrates the point.



2. The aggregation rules, as laid down in UNC Section G1.4, are cumbersome to administer and are not easy to apply without an intimate knowledge of the commercial arrangements downstream of the ECV. A scan of the rules used to explain the intricacies of G1.4 is attached as Appendix 1. Removal of multi-metered Supply Points ("mmSP") concept would remove the need to apply these complex rules.

3. At some point in the next few years the Sites and Meters system will be re-written against a new base-line of requirements. If mmSPs are removed from the base-line requirements, this will considerably reduce the complexity which will have to be rewritten into the new system.
4. The removal of mmSPs will improve the granularity of SHQ and SOQ when booked as part of a DM Supply Point component.

### **Modification 0428A**

Proposes to apply the same rules set out in Modification 0428. However, these rules would apply to new or amended supply points only. The aim is to preserve the rights of customers who operate premises with existing gas supply infrastructure, the design of which for many was dictated not by their needs but by the connection rules and policies in place at the time. Existing aggregated supply points would be able to retain their current status.

Some workgroup participants understand the arguments made within Modification 0428 and acknowledge the desire to design the Nexus solution for the replacement of UK Link systems to be as streamlined and efficient as possible. However, they feel the industry should not be forced to re-structure root and branch unless a) there is a clear positive cost benefit case and b) that steps are taken to ensure that certain market sectors are not adversely affected.

Some workgroup participants consider that were the gas industry to commence in 2015, then it may well be easy to make the business case for the single meter Supply Point philosophy. This is of course not the case and it is important to examine the historical context to see how the industry has evolved and why there are a mixture of older sites with many meters; and newer, often large and complex sites with single meters.

### **Background – why were multi-meter configurations installed?**

Over the years mains and services have been replaced, both as part of on-going maintenance or as part of a mains renewal policy, but the original configuration i.e. multi-metered has been retained. There have been some exceptions to this where it proved beneficial to both the distributor and customer.

Many of these original installations date back not just to pre market liberalisation but to before the natural gas era. The former British Gas Corporation (owner of the GB transportation network and monopoly gas supplier) sought to introduce gas to displace coal and oil in industrial and commercial premises. Often this involved incremental development, a single production process would be converted requiring a gas supply for that process only. Gradually the site would acquire more and more separate supplies. With the advent of natural gas demand grew dramatically and the philosophy of 'adding' separate supplies continued.

It must be understood that the decision to take this course may not driven by the customer but have been at the behest of British Gas Corporation who actively marketed gas in GB. The cheapest and easiest way of getting gas to site was chosen and this was usually by connecting the 'point of use' to the nearest gas main in the street.

There were other reasons for this approach, often the adjacent gas main was of insufficient capacity to provide the full site gas load. The options were to connect separate supplies to other mains or carry out extensive reinforcement adding to the distributor's costs. At that time it was the policy of British Gas Corporation to offset the cost of most connections against projected gas usage and so the infrastructure costs were a direct cost to them.

Whilst this clearly delivered benefits to customers it was often a necessary and integral ingredient of their own business case when embarking on major capital investment programmes.

This approach only changed when competition in gas supply became an inevitable reality. Guaranteed revenue from monopoly gas supply ceased and what became Transco moved their focus to transportation revenue and control of costs including maintenance. A simple single metered supply for new gas loads became the favoured option. The utilisation of higher gas pressures using plastic pipe that didn't leak added to the attractiveness.

During mains replacement activity any opportunity to rationalise existing installations was taken, but the solution did not require the customer to bear the cost. Where changes to the customer's own internal pipework were required these were fully paid for by the distributor.

## Transportation charging principles

Transportation charges are based upon the gas usage at a premises. As long as the criteria for 'single premises' is met any number of meters can be included in a single Supply Point. It has long been established that premises or 'site' equates to Supply Point.

The transportation charge structure is designed such that the utilisation of capacity of the total system incorporated to deliver gas to a location is the basis for charging. This includes utilisation of the various pressure tiers, from high-pressure national and local transmission through intermediate and medium pressure and finally to low pressure. For a given site with one or more meters the utilisation will be the same until the very last element, the service pipe. Some Workgroup participants support the view in Modification 0428, that it costs more to upkeep more numbers of services at single premises. However, others support the view of Modification 0428A, that it is a marginal difference given the bulk of charges relate to pressure tier utilisation.

Some participants are concerned that the utilisation of capacity at premises versus utilisation via a number of single metered Supply Points proposed in Modification 0428. They argue that Industrial & Commercial premises use gas for a variety of applications. For multi meters, one process may be supplied by one meter and a separate process by another. It is very unlikely that each of these processes will take their peak gas demand at precisely the same time or on the same day. The current charging principles accept this by charging at Supply Point or premises/site level.

## Network Design

The network is designed to be economic and efficient. However, some participants consider that by not accounting for the natural diversity, it is possible that networks may become oversized should Modification 0428 be introduced.

### Example

Take a simple ceramic pottery production process.

Meter No. 1 capacity 10 scmh used for ceramic first firing (producing the unglazed pot)

Meter No. 2 capacity 10 scmh used for glazed firing (producing the finished pot)

First firing happens in the morning followed by finishing in the afternoon.

Total daily required capacity:

- a) meters identified as individual Supply Points = 20 scmh
- b) meters treated in aggregate = 10 scmh.

## Other considerations – supply transfers

Existing Supply Points, regardless of numbers of meters, are identified by a single transporter reference called a confirmation reference. When a shipper carries out a supply

transfer they are required to present, or nominate, just one Meter Point Reference Number (MPRN) contained within the Supply Point, this can be any of the MPRN's contained within the aggregation. When they complete the process all meter points contained within the aggregation automatically transfer, thus a simple process ensures that ALL meters transfer. Not only shipper/suppliers but also customers have become accustomed to this simple Supply Point administration process and have their own administration systems/processes designed around it. Some participants consider that should Modification 0428 be implemented, this may require a complete re-design of shipper/supplier and customer systems and processes.



## 3 Solution

### 0428 National Grid

The simple answer is from a date, to be determined; all supply points should only comprise one meter point.

We appreciate there are a number of transition issues that need to be addressed, both from a Gas Supply perspective (Supplier) and from a Supply Point Register perspective (Transporter) and, hence, we propose a transition phase should commence at the shipper's discretion, (prior to Nexus go-live), and would be largely shipper driven in terms of managing the disaggregation of the affected Supply Points. Notwithstanding this aspiration, it is proposed that where certain actions are not undertaken by the shipper, then the transporter would have rights to take action on a shippers behalf.

#### **The Business Rules**

With effect from 1st April 2014, a Supply Meter Point would neither be permitted to be added to an existing multi-metered Supply Point, nor combined with another single Supply Meter Point, to create a new multi-meter Supply point. This is the point that the Single Premise Requirement can be removed from the Code

Exception – Twin-stream metering that has two MPRNs will be treated as a single metered supply point

Twin-stream metering means: Two identical meters installed in parallel, fed from a single service, with the flow through the meters combining immediately downstream of the meter outlets

3 months prior to the Nexus go-live date, all multi-metered supply points shall have been disaggregated, and reconfirmed as single meter Supply Points by registered user or have a confirmation in place to take effect prior to the Nexus go-live date.

Any multi-metered supply points not disaggregated by the shipper 3 months prior to Nexus go-live, or having an effective confirmation prior to the Nexus go-live date, would be disaggregated by the transporter's agent using the Transitional Rules detailed below.

**Transition Rules:-**

Where, 3 months prior to the go-live date for Nexus, the shipper has not taken action split the Supply Point, the transporter's agent will take such actions as necessary, based on the rules below, to effect the disaggregation.

Any confirmations scheduled to take effect after the date must comply with this rule, otherwise the confirmation will be rejected.

Transporters' agent disaggregation guidelines:

An NDM supply point: Each meter point will be confirmed using the prevailing MPAQ Where sufficient meter read history exists; the Meter Point will be allocated into the corresponding WAR banded EUC;

An NDM meter point in a DM supply point: As above;

An DM meter point in a DM supply point: The meter point will be confirmed with an SOQ equal to the peak daily consumption for Gas Year 1 Oct 2014– 31 March 2015, (currently expected to be the winter period prior to effective implementation).

Where it is necessary to split SHQs (for example where a meter points in a DM supply point will remain DM but other meters will not), these will given values to reflect the max hour over the effective winter period for this implementation.

<b>0428 User Pays</b>
<b>Classification of the modification as User Pays, or not, and the justification for such classification</b>
This modification should only be user pays to the extent that transporters are required to carry out activities that should have been carried out by the shipper.
<b>Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification</b>
100% targeted on shippers that do not undertake the appropriate activities. We don't want to levy charges but if our agent has to undertake activities that should be carried out by the shipper, we propose that we should have the capability and right to charge.
<b>Proposed charge(s) for application of Users Pays charges to Shippers</b>
Charge per confirmation (action) undertaken on behalf of the shipper
<b>Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve</b>
As yet unknown (circa £xx.xx)

**0428A Gazprom**

We propose that no further multi-metered Supply Points can be created, but any existing multi-metered configurations can remain so unless the customer agrees to the change. In effect this retains the status quo for these customers. Going forward such sites will be

allowed to be reconfigured to remove defunct meter points, but for the avoidance of doubt no new meter points could be added.

0428A User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
This modification does not result in any changes to current requirements for multi-metered Supply Points, and so do not anticipate any costs as this maintains current processes. Preventing future multi-metered Supply Points will require Xoserve to undertake changes, but we believe that if this is undertaken as part of Project Nexus no additional costs beyond that already incurred. This modification is therefore not User Pays
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
N/A
Proposed charge(s) for application of User Pays charges to Shippers.
None
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
N/A

## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives</b> :		
	Identified impact	
Relevant Objective	0428	0428A
a) Efficient and economic operation of the pipe-line system.	None	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	None
c) Efficient discharge of the licensee's obligations.	Impacted	Impacted
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.	Impacted	Impacted

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	None
f) Promotion of efficiency in the implementation and administration of the Code.	None	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None	None

### Relevant objective c)

0428 - Some workgroup participants consider that the by allowing costs to be levied on a like for like basis, without changing any pricing methodology, it will enable the licensee to provide more cost reflective transportation charges.

0428A - Some workgroup participants consider that the by allowing costs to be levied on a like for like basis, without changing any pricing methodology, it will enable the licensee to provide more cost reflective transportation charges, while protecting those who have made investment decisions based on the rules and policies in place at the time.

### Relevant objective d)

0428 - Some workgroup participants consider more cost reflective charging is a positive step in promoting competition between shippers and implementation would realise improved cost-targeting and therefore promote competition

Some workgroup participants consider this modification is likely to have a disproportionate impact on consumers, who have made investment decisions based on the rules in place at the time and would add additional cost to the industry for very little benefit.

0428A – Some workgroup participants consider cost reflective charging will prevent cross subsidy from one market sector to the other. Customers who have made decisions regarding their gas supply in good faith will not be penalised by changes to the basis of transportation charges and capacity. They consider the solution should allow existing configurations to remain and restrict the addition of new configurations in a similar way to Sub deduct arrangements.

## 5 Impacts

### Consideration of Wider Industry Impacts

Some workgroup participants agree with Modification 0428, that from the inception of gas transportation being discrete from supply, gas has been sold on the basis of gas to “premises”, so therefore it is unreasonable to imagine that there will not be an impact. However, the concept of supply point is out-dated, as the transportation business conveys gas to an Emergency Control Valve without considering the use to which that gas will be put, and a Transporter’s charges, and business, should reflect that fact. Transporters are not restricting gas suppliers aggregating meter points up to and beyond the old curtilage rules in supply arrangements, but Transporters will not be reflecting any form of aggregation in DN transportation charges rates. Given that, although the rule is simple, the concept removes a long established way of working and Transporters are mindful that it will take some time to eradicate the supply point concept, both in practice and in the minds of customers.

However, some workgroup participants were concerned that this assessment of wider industry impacts fails to recognise the disproportionate impact on consumers, who currently enjoy the benefits of aggregated supply points and may face additional infrastructure charges or transportation changes, due to decisions they made based on Transporters connection policies in the past.

### Impacts

For Modification 0428, it is proposed that the transition is Shipper-driven with sufficient time for Shippers to carry out the requisite SPA activities. It is not intended that any User Pays charges should be levied but an ACS service line may be proposed to ensure that the full cost of non-compliance can be assessed and Shippers made aware of possible changes. Some participants consider, that while not a principal objective, a new generation of UK-Link is planned and any simplification of the base-lined Supply Point Administration arrangements would be beneficial to the implementation of that new system.

Impact on Transporters’ Systems and Process	
Transporters’ System/Process	Potential impact – minor
UK Link	<ul style="list-style-type: none"> <li>0428 and 0428A - Additional file validation functionality may be require to facilitate the introduction of the modification</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>0428 and 0428A - Site visits to check supply point configurations would no longer be required</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>0428 - Transporters may consider introducing a cost reflective charge for confirmations where they are required to take action where the shipper has not carried out the mandated SPA activity.</li> </ul>

Impact on Users	
Area of Users’ business	Potential impact

Impact on Users	
Administrative and operational	<ul style="list-style-type: none"> <li>0428 - Users would be required to reconfirm meter points within an aggregated Supply Point as single Supply Points</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>0428 and 0428A - By stripping-out the premise definition rules, site visits and administration of the rules would not be required for new sites.</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>0428 - Some minor changes to UK-Link may be required.</li> <li>Some consider 0428 would make the Project Nexus solution easier to develop and implement</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>0428 - Transporters will not seek to recover the development costs of implementation.</li> </ul>

Other Impacts	
Item impacted	Potential impact
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> <li>0428 - Consumers benefiting from meter point aggregations will have their transportation rates based on ssMP rule.</li> <li>0428 - Some consumers may face increased administration costs, as they will have to manage meter points on an individual basis.</li> <li>0428 - Some consider that there is a potential meter stranding risk for other parties such as MAMs should consumers rationalise their infrastructure</li> </ul>

## 6 Implementation

No implementation timescales are proposed for either modification as they may be indirectly impacted by the Nexus go-live date. It would be desirable if Modification 0428 could be implemented by 01 April 2014, in the knowledge that prior to the new system implementation, all existing multi meter supply points would have to be disaggregated and reconfirmed as Single Supply Meter Points prior to the Nexus go-live date. For Modification 0428A, it would be desirable for implementation to be aligned with the Nexus go-live date.

Within the various consultation responses, implementation timescale indications ranged from as little as a few months (Winchester Gas) to a minimum of 12 months lead-time (British Gas and RWE). Other parties (Gazprom and WINGAS) suggested that implementation (of 0428A) should be in-line with Project Nexus rollout and thereby potentially avoid large numbers of MPRNs falling into RbD. Several parties (DONG for 0428A, E.ON for 0428A and SSE for 0428) suggest that a 01 April 2014 implementation date would be preferable as this would allow sufficient time for customers to be advised of any new charges, whilst others (NG NTS, SGN and WWU) advised that they were happy with the proposed implementation timescales indicated within the respective modifications.

E.ON also suggested that due to the potentially significant (resourcing) impacts associated with implementation of Modification 0428, a fixed implementation date supported by provision of a disaggregation plan would be preferable.

National Grid Distribution proposed that these new arrangements are implemented so that they take effect on 1<sup>st</sup> April 2014, the date on which no new supply point aggregation could be created, although individual meter points could be disaggregated. The proposal would operate in that format until new UK-LINK becomes operational. The new system would not have the functionality to accept multi-metered supply points so a transition phase has been set out in the business rules to remove aggregations. Since the go-live date of the new system is not yet known, they have had to include a term in the legal text to accommodate this, as yet, unknown date. This will be a common feature in all the Project Nexus related legal text.

## 7 Legal Text

Text prepared by National Grid for both modifications has been published alongside the report.

In their response, National Grid provided a brief explanation behind the development of the legal text, as follows:

The legal text for Mod 428 is extensive and would have a phased effect on the UNC. To complement the text we have include a commentary to aid understanding:

### **Transition Process**

The text has been constructed on the basis of two phases:

The phases deal with treatment of multi-metered supply points, and overlaid on this is the obligations placed on shippers to reconfirm the meter points out of the aggregations - at a specific point in time the obligation to disaggregate falls away from the shipper and the right to undertake the disaggregation moves to the transporter, which the transporter would carry out by the time next generation UK-Link goes live

### **Transition Phase 1 - Day of Implementation to 1 April 2014**

The enduring text will be embedded into the UNC but in reality: nothing changes - hence all the text changes need to be reversed back into the UNC by inclusion in the transition document.

For most sections, the reversal will be done by paragraph by paragraph exception, except for Section G, which due to the extensive use of "Supply Meter Point Component", the whole original section is being reversed in.

### **Transition Phase 2 - 1 April 2014 to Nexus Go-live Date**

Very little text changes but we establish that no further meter points can be aggregated together or combined into existing multi metered supply points - set out in TDIIC15

### **Transition Period - Date of implementation to (Nexus Date minus 3 months)**

Shippers have the obligation to reconfirm multi-metered supply points as singles before the end of the transition period - the "Transit Rule" and expressed in TDIIC 13.4.1

### **Remaining Period (not defined) - (Nexus Date minus 3 months) to Nexus Date**

Transporters will take control and reconfirm the meter points as individuals and set out in the remainder of TDIIC 13.4

**Principal Changes in Enduring Drafting Section A - A4.3** - the removal of the term Supply Point Component - Obviously if supply points can only contain one meter and the greatest volume of change in the affected section involves changing "Supply Point Component" to "Supply Point". This text change is replaced many times and forms the bulk of the amendment.

In their response, E.ON highlights that whilst they have not reviewed the legal text in full they are concerned that the legal text creates uncertainty in terms of the date on which disaggregation must be achieved, or from which date revised charges would have to be applied. They do not feel there is sufficient clarity in the legal text to assure customers of the requirement for different charging arrangements or the date on which disaggregation must take place until a date (which is yet to be confirmed - Project Nexus Go Live) is announced.

Of those other parties providing a view on the legal text (as published), all indicated that the legal text appeared to reflect the intent of the respective modification that it relates to.



## 8 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?		Stated Preference
	0428	0428A	
British Gas	Support	Not in Support	0428
DONG Energy	Not in Support	Support	0428A
E.ON UK	Qualified Support	Support	-
EDF Energy	Support	Support	0428
Gazprom	Not in Support	Support	0428A
National Grid Distribution	Support	Qualified Support	-
National Grid NTS	Support	Support	-
RWE npower	Not in Support	Support	0428A
Scotia Gas Networks	Support	Not in Support	0428
SSE	Support	Not in Support	0428
Total Gas & Power	Not in Support	Support	0428A
Wales & West Utilities	Support	Qualified Support	0428
WINGAS UK Ltd	Not in Support	Supports	0428A
Winchester Gas	Support	Support	0428

### 0428

Of the 14 representations received 8 supported implementation, 1 offered qualified support and 5 were not in support.

### 0428A

Of the 14 representations received 9 supported implementation, 2 offered qualified support and 3 were not in support.

### Preference

Of the 14 representations received, 6 stated a preference for Modification **0428** and 5 stated a preference for Modification **0428A**.

### Summary Comments

British Gas believes that both modifications would impact upon Project Nexus. As far as 0428 is concerned they see this as the simpler of the two solutions relating to individual Meter and Supply Points, resulting in a potentially easier and cheaper solution for both Xoserve and Shippers to develop and implement. 0428A on the other hand is the more complex solution and as a result will potentially have a material impact upon Project Nexus without demonstrating a benefit.

RWE npower highlights that while supporting improved transparency of network charges, it has some concerns that 0428 will potentially have a disproportionate impact on customers with historical metering configurations and potentially unqualified impacts upon Suppliers, such as the cost for parties to de-aggregate sites associated with a complex manual process. The mixing of residential and commercial meters within the 01B profile could create unrepresentative industry variables (i.e. ALP and DAFs) in future.

SGN believes that Modification 0428 would facilitate improved cost reflective transportation charging where removal of multi meter Supply Points and the ability to create new ones

would have the effect of directing costs more accurately to the Users who incur them. Additionally, they believe that introducing the proposed 0428 changes to coincide with the go-live date for Project Nexus would also remove the need to build a complex system to manage multi-meter Supply Points, in relation to the calculation of transportation charges to aggregated sites.

SSE also note that there are benefits in introducing modification 0428 at the same time as Project Nexus rollout.

Wales & West Utilities suggests that subsidies should not exist, and where these exist as an historic legacy of gas transportation arrangements, should be removed with sufficient notice to all affected parties. They believe that Modification 0428 provides for a cost reflective charging mechanism whilst also removing potentially cumbersome and complex processes.

Total Gas & Power believes that it would be unfair for customers to experience increased transportation charges as a result of disaggregation. TGP therefore supports the grandfathering of existing arrangements proposed by 0428A to protect I&C consumers from price shocks.

WINGAS believes that Modification 0428A potentially avoids penalising current sites and considerable work for Shippers in adjusting their respective billing systems to disaggregate all existing customers whilst ensuring that future connections are undertaken on a single supply point basis.

In indicating a preference for modification 0428, Winchester Gas generally notes that whilst the occurrence of multi-metered supply points within the SSP market is relatively small, they have the potential to create considerable issues with both change of supply and AQ processes. Furthermore, customers can experience delays when awaiting de-aggregation before moving supply and can be erroneously transferred if a different supply within the group is transferred. Issues also exist where aggregated AQ brings these supply points into the LSP market. Concluding, they believe that removing multi-metered supply points from the SSP market can only be seen as being beneficial.

## Additional Issues Identified in Responses

E.ON raises several concerns relating to both the implementation date, disaggregation (including timeframes) and the potential impact upon Transportation and Commodity Charging aspects of 0428. They believe that the implementation date creates uncertainty about the date on which suppliers must disaggregate sites. It stipulates that no new points may be added from 1st April 2014, and that all existing aggregations must be disaggregated by 3 months from Nexus Go-Live date, however at what point should suppliers inform customers that they have to begin disaggregating? Whilst it would be sensible for suppliers and customers to agree this, because it will have a financial impact on the customer charges customers may wish to retain their aggregation until they are obligated to become disaggregated and in order to require the customer to accept the disaggregation requirement, from what date would we be required to contract with the customer on these new terms? They go on to highlight that apart from National Grid, little or no information on the potential impact of the changes has been provided by the GDNs.

In respect of the process disaggregation, E.ON is concerned that without a phased approach to implementation the resources required both by Xoserve and Shippers may be insufficient to achieve disaggregation for all the aggregations into individual supply points. Given that the process (in their experience) takes on average 6 weeks per disaggregation (for those that are uncomplicated) and that there is no set date to begin the disaggregation or conclude it by, if all parties waited until the Go Live date of Nexus was confirmed to begin the disaggregation, all work would have to be completed within three months by both shippers and transporters (and their agent), as well as completing the setting up of new billing accounts for the previously aggregated meter points.

Gazprom notes that the proposed redistribution of benefits in Modification 0428 relies on those existing configurations remaining in situ. They believe it is important to protect consumers who operate at premises with existing gas supply infrastructure, the design of which for many was dictated not by their or previous customers needs but by the connection rules and policies in place at the time. Gazprom also believes their proposed approach is consistent with grandfathering rights enjoyed by existing Prime and Sub-deduct configurations. Whilst new configurations have been prohibited, existing arrangements have been allowed to continue to exist.

As part of their analysis, Gazprom have identified many public sector sites such as

Schools, Universities & Hospitals which benefit from the existing arrangements. On a sample of just 3 Supply Points they have identified additional charges of circa £15k.

National Grid Distribution obtained reports for all multi- metered supply points (where the supply point AQ was greater than 73,200kWh). This analysis effectively demonstrated that the vast majority of sites had been in existence for a considerable period. Hence, any benefit with regards to transportation discount accruing from the aggregation will, in many cases, have materialised. Consequently, they believe the industry can move forward from the implementation of new UK-LINK (estimated to be 2015), in the knowledge that we have largely cleared the financial consequence of decisions made in the past and that decision made going forward can be done so in the full knowledge of the arrangements will apply from a know point in the future.

## 9 Panel Discussions

The Panel Chair summarised that Modification 0428 seeks to remove the arrangement whereby some DN meter points are aggregated and treated as a single supply point, such that each meter point would, in essence, be treated as a separate supply point. The alternative, Modification 0428A, has the same provisions for all new or amended meter points, but provides for those that are currently aggregated into a single supply point to retain their existing commercial arrangement.

Panel Members recognised that the DN transportation charging methodology has been developed to reflect costs at meter point level. Given this, changing from charging on the basis of aggregated to individual meter points would be expected to be more cost reflective. Appropriate cost allocations underpin effective competition, such that implementation of either modification could be considered to further the relevant objectives. However, some Members were concerned that implementation of Modification 0428 would undermine decisions taken in good faith in light of the then prevailing commercial arrangements. Undermining decisions taken in response to commercial signals could be regarded as inequitable and unduly discriminatory, and also potentially creates risk and uncertainty. As such, they felt that on balance only Modification 0428A could be regarded as having a positive impact on effective competition.

Plans are being progressed to complete a major replacement of the IT systems that support competition in the GB gas market. The need to deal with aggregated meter points adds to complexity and Panel Members acknowledged that it would be more economic and efficient if no meter points were to be aggregated. Implementation of Modification 0428 in particular would, therefore, be consistent with promoting efficiency in the implementation of the Code, although this would be at the expense of reduced system functionality.

Members then voted and with 7 votes cast in favour, determined to recommend that Modification 0428 should be implemented. With 10 votes cast in favour, Members also determined to recommend that Modification 0428A should be implemented.

Members then considered which of the two modifications, if one were to be implemented, would be expected to better facilitate the relevant objectives. With 6 votes preferring Modification 0428, and 4 votes preferring Modification 0428A, Members determined that, of the two, Modification 0428 would be expected to better facilitate the relevant objectives.

## 10 Recommendation

### Panel Recommendation

Having considered this Modification Report, the Panel recommends:

- that proposed Modification 0428 should be made;
- that proposed Modification 0428A should be made; and
- that proposed Modification 0428 better facilitates the Relevant Objectives than proposed Modification 0428A.