

## Stage 01: Proposal

# 0383:

## Profiling payment of LDZ transportation charges

What stage is this document in the process?

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

Being predominately capacity based, LDZ system charges are largely collected evenly across the year. It is proposed that collection should be profiled to better match customer requirements.



The Proposer recommends that this modification should be referred to a Workgroup for assessment



High Impact: Smaller Shippers  
Cashflow impact, aligning costs and revenues



Medium Impact:



Low Impact: Transporters  
Cashflow impact

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Modification  
06 May 2011

Version 1.0

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## About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 19 May 2011. The Panel will consider the Proposer's recommendation, and agree whether this modification should be issued to consultation or be referred to a Workgroup for assessment.



3 **Any questions?**

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# 1 Summary

## Is this a Self-Governance Modification

Implementation would have a significant impact on smaller domestic suppliers in particular, and so does not meet the criteria for a self-governance modification.

## Why Change?

The present LDZ charging arrangement is primarily based on capacity bookings, which are largely fixed throughout the year. Supplier revenue is driven by the amount of gas consumed, which is higher in winter than in summer. This creates a mismatch between supplier costs and revenues, and potentially makes the sale of gas a loss making activity during the summer months. This creates cashflow issues and is a barrier to entry.

## Solution

It is proposed that, subject to meeting specific conditions, Shippers be entitled to profile their payment of LDZ transportation charges, such that a greater proportion is paid in the winter months.

## Impacts & Costs

No systems impacts are anticipated to be necessary to support this modification. There would be no change to invoices. However, Shippers that met the criteria and elected to profile payments would not be required to pay the full amount of invoices during the Summer months, but would be required to clear all outstanding amounts during the Winter months. Transporters would need to monitor the unpaid amounts and ensure that no actions are taken to enforce payment.

## Implementation

This modification should be implemented at the earliest possible opportunity.

## The Case for Change

Implementation will facilitate competition by helping to ensure revenue and costs are more closely aligned, reducing the possibility of gas being supplied at a loss during the summer months and addressing a cashflow issue which can act as a barrier to entry and a barrier to business development for smaller suppliers in particular.

## Recommendations

It is recommended that this modification should be assessed by a Workgroup with a view to identifying and refining a solution which delivers the intent of this modification and is capable of early implementation.

## 2 Why Change?

The present LDZ charging arrangement is primarily based on capacity bookings, which are largely fixed throughout the year. In the case of domestic suppliers, transportation charges are based on AQs which are set for a year and do not always reflect the true level of capacity usage, especially when energy efficiency measures are installed, reducing consumption without any immediate benefit through reduced capacity charges. By contrast, Supplier revenue is driven by the amount of gas consumed, which is higher in winter than in summer, and is reduced as a result of energy efficiency initiatives.

The mismatch between the profiles of supplier revenue and transportation charges potentially makes the sale of gas a loss making activity during the summer months. While this may not create particular difficulties for suppliers with large, diverse portfolios, or those with a low cost of capital, a significant cashflow issue is created for some suppliers. The issue is particularly acute for smaller suppliers with a primarily domestic customer base, and especially those that actively promote and encourage adoption of energy efficiency measures. The mismatch therefore creates an inappropriate barrier to market entry and business development, and change is needed to encourage greater competition within the domestic market.

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### 3 Solution

It is proposed that Shippers which meet certain criteria be permitted to profile the payment of invoices across a year, with the intention of clearing all outstanding amounts by the end of each Winter period.

The intention is for the facility to profile payments to be available to smaller Shippers only, and to be restricted to those who primarily supply the SSP market. It is therefore proposed that only Shippers supplying less than 500,000 meter points would be eligible to take advantage of the option to profile payments. An available profile would be calculated by the Transporters based on the proportion of annual demand anticipated in each month based on the demand estimation process for domestic customers. Any Shipper wishing to take advantage of the profiling option would be required to propose monthly payments and demonstrate, to the Transporter's satisfaction, that the profile of payments lies between the unadjusted level and that implied by the profile described above. In addition, the Shipper would be required to demonstrate an expectation that the proposed payment profile would be in line with its own expected demand profile.

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## 4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Methodology Objective d.**

Proposer's view of the benefits against the Code Relevant Methodology Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Yes
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.	
c) Efficient discharge of the licensee's obligations.	
c) Efficient discharge of the licensee's obligations.	Yes
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.	
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.	
f) Promotion of efficiency in the implementation and administration of the Code	

Competition would be facilitated (Relevant Objective d) by more closely aligning the profile of revenues and costs. This would remove the barrier to entry which smaller suppliers, in particular, face at present because of the mismatch between costs and revenues. This creates a cashflow problem, with cashflow being widely recognised as a major issue for smaller organisations and new entrants. The present arrangements can make supply to domestic premises loss making in the summer months, which is a strong deterrent to entry and customer acquisition during the summer months. Creating more appropriate incentives to acquire customers, to encourage energy efficiency, and to remove barriers to entry would facilitate the development of effective competition.

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## 5 Impacts and Costs

### Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
Transporters would need to ensure invoice calculations reflect their obligations. No changes to central systems are envisaged and therefore this is not a User Pays modification	
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	• None
Development, capital and operating costs	• Costs re-profiled
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None

## 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.co.uk/sites/default/files/0565.zip>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None anticipated</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>Re-profiling would occur</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>The Charging methodology would not be modified</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>None</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>None</li> </ul>
General administration	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code	
Code section	Potential impact
To be determined by Transporters	Additional provisions to be inserted

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



Impact on UNC Related Documents and Other Referenced Documents	
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
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

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## 6 Implementation

The modification should be implemented as soon as possible.

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## 7 The Case for Change

None in addition to that identified above.

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## 8 Legal Text

To be provided by the Transporters.

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## 9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0383 progresses to Assessment

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