

Stage 01: Modification

0428A

Single Meter Supply Points (alternate)

At what stage is this document in the process?

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

Modification 0428 has been raised by National Grid Distribution to mandate Single Meter Points as the only allowable Supply Point configuration. This is an alternate to Modification 0428



The Proposer recommends that this alternate modification should be :

- assessed by a workgroup



High Impact:
Customers, shippers and suppliers



Medium Impact:



Low Impact:

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About this document:

This modification is an alternate to Modification 0428 and will be presented by the proposer to the panel on 21 February 2013.

Any reference to the British Gas Corporation is to the former monopoly provider of mains gas supply in Great Britain, a predecessor to National Grid Gas.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification has significant impact on shippers, suppliers and customers and therefore the Proposer believes that Self-Governance procedures should not be followed.

Why Change?

Modification 0428 has been raised by National Grid Distribution to mandate Single Meter Points as the only allowable Supply Point configuration. They argue that the existing multi-meter point aggregated configuration is not cost reflective. However they also accept that existing charging methodology is based upon the aggregation model and that the introduction of 0428 will lead to increased charges for many customers. We believe that it is unreasonable to impose this cost burden on industry and commerce unless the pricing principles are fully reviewed as a pre-requisite. Many customers with a multi-meter Supply Point configuration choose such a connection arrangement after discussions with the relevant transporter in the understanding that they would not be penalised for such a configuration. Breaking up such configurations will either impose significant additional transportation costs on such customers, or require reconfiguration of the Supply Point to connect to the network through a single meter, also resulting in significant costs.

In addition to concerns about transportation charging we believe that the proposed 0428 structure will create a substantial administration burden on customers and potentially lead to widespread problems of fragmented supply transfers.

Solution

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

This alternate Modification will impact positively on the relevant objectives a); b); c) and d). The only costs should be legal drafting as the solution retains existing processes.

Implementation

No implementation timescales are proposed. However, it would be desirable for implementation to be aligned with Project Nexus.

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2 Why Change?

What is wrong with 0428 ?

We understand the arguments made within 0428 and acknowledge the desire to design the Nexus solution to be as streamlined and efficient as possible. We do not however believe that the industry should 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.

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 we now have a mixture of older sites with many meters; and newer, often large and complex sites with single meters.

Therefore the point of this alternate 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 predecessor of National Grid.

Rather than attempt, at this stage, to set-out a comprehensive modification proposal that advocates both single meter Supply Points and gives protections to existing customers we are using this alternate to present the case for the latter. 0428 comprehensively makes the case for the former and so we hope to address the issues described in order to seek the development of a robust Nexus solution. Therefore we have attempted to address the concerns by giving reference to 0428 but have not including its core elements for the sake of brevity.

Background – why were multi-meter configurations installed?

Over the years mains and services¹ 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 was not driven by the customer but was 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

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¹ See Gas Distribution RIIO-GD1 Price Control Review Business Plan Submissions for a description of 'mains and services'

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. Indeed we believe this is still the policy of the GDNs, not only for Industrial & Commercial premises but for domestic supplies as part of on-going mains renewal.

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. 0428 argues that it costs more to upkeep more numbers of services at single premises. Although to a degree we accept this, we believe it is a marginal if insignificant difference given the bulk of charges relate to pressure tier utilisation as described above.

The aspect of charging that concerns us most is the utilisation of capacity at a premises versus utilisation via a number of single metered Supply Points. 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 or even inconceivable that each of these processes will take their peak gas demand at precisely the same time or on the same day. There is always some degree of diversity. The current charging principles accept this by charging at Supply Point or premises/site level.

Network Design

Aside from transportation charge principles, the network is designed to be economic and efficient. By not accounting for the natural diversity described above it is likely that networks will become oversized. This may increase the asset value of the transporter but will do nothing for the customer.

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.

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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. If 0428 is implemented without protections for existing customers then this will require a complete re-design of shipper/supplier and customer systems and processes.

It has taken the industry some years to overcome problems of customer transfers, particularly for multi-metered, multi-site customers and we are concerned that 0428 without the protections will have a severe detrimental effect. Some meters will transfer and some not. Some large sites can comprise 50 or more meters.

We believe that 0428 on its own will roll back competition in the Industrial & Commercial market sector as many customers will see the administration burden of re-tendering and subsequent supply transfer problems as outweighing any market price benefits.

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3 Solution

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.

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 Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	Positive
c) Efficient discharge of the licensee's obligations.	Positive
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.	Positive
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
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

Relevant objective a)

By retaining aggregate consumption data at premises level the optimal required capacity will be preserved.

Relevant objective b)

Total gas demand at site level throughout the day will provide data to enable effective physical system balance between DNs and NTS and enable proper management including the identifying of potential emergency scenarios.

Relevant objective c)

By ensuring cost reflective charging.

Relevant objective d)

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 charging methodology.

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5 Implementation

No implementation timescales are proposed. However, it would be desirable for implementation to be aligned with Project Nexus.

6 Legal Text

UNC TPD Section G 1.1; 1.3; 1.4; 1.5

On the date to be determined to coincide with the go-live date for Nexus, "Nexus go-live date", a Supply Point containing more than one Supply Meter Point shall continue to contain the same number of Supply Meter Points beyond. [the date to be determined to coincide with the go-live date for Nexus, "Nexus go-live date",]

7 Recommendation

The Proposer invites the Panel to:

- Determine that this Modification should progress to Workgroup assessment.