

Stage 01: Modification

0497:

Introduction of Annual update to the AQ values within the CSEP NExA table

To update the CSEP NExA table held within Annex A part 8 and UNC TPD Section G Annex G-3 on an annual basis

The Proposer recommends that this modification should

- proceed to Consultation



High Impact:



Medium Impact:
Users (Shippers) and iGTs



Low Impact:
Large Transporters

At what stage is this document in the process?

01

Modification

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

0497












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| 6 | Legal Text | 8 |  amie.charalambous@npower.com |
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1 Summary

Is this a Self-Governance Modification?

It is proposed that this is not a self governance modification. Although this will not have a material impact to existing or future gas consumers it will have an impact on another code and therefore does not meet the criteria

Is this a Fast Track Self-Governance Modification?

This modification is not proposed to be suitable for fast track self-governance as it does not meet the criteria for Self Governance

Why Change?

Currently, AQ values contained within the CSEP NExA table are fixed and as such do not get updated on a yearly basis in line with the AQ review, therefore AQ values can quickly become outdated. With the continued energy efficiency measures the domestic market has undertaken and the general demand reduction measures consumers are applying, it is now appropriate that not only should the CSEP NExA table be reviewed in accordance with iGT 051 ANC - amendment of iGT AQ Review Procedures Document, but also updated annually. This modification will allow transporters to accurately plan their network capacity and shipper to accurately price domestic new connection customers based on the most up to date AQ values available.

The implementation of iGT051ANC on 28 June 2013, has introduced a yearly review of the AQ values of the CSEP NExA by the iGT transporters, however, iGT 051 does not mandate the annual revision of the values held CSEP NExA tables following this review exercise. An annual update of the table would provide a sensible and enduring approach. If you are reviewing the AQ values you would want to amend the AQ table with the revised values.

A customer would expect to be priced at the most reflective price possible. In line with Ofgem incentives e.g. Retail Market Reform (tariff simplification) this can only provide a positive step towards transparency and fairer pricing for end customers

Solution

The implementation of iGT051ANC on 28 June 2013, has only introduced a yearly review of the values to the CSEP NExA by the pipeline operators. Development work carried out under iGT 053 will allow for the values contained within CSEP NExA table to be updated on a yearly basis. It is proposed that the current CSEP NExA table is updated on an annual basis with up to date values following the iGT AQ review held in December. The methodology used for the review has already been developed following on from UNC 392 and iGT UNC 040V

Relevant Objectives

d) Securing of effective competition

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Implementation of the change identified within this modification proposal is expected to facilitate the achievement of securing of effective competition

Implementation

It is expected that there will be minimal (if any) costs to large transporters, shippers/suppliers and only minimal costs to the iGT's as they will have already mitigated this eventuality from the previous workgroups held for modification proposal UNC 0392, iGT 040V and more recently, iGT 053.

Although no Implementation timescales are proposed, it is anticipated any decisions made regarding an implementation date, will need to be in line with iGT053 but no later than 1st October 2014.

2 Why Change?

The AQ values used in the CSEP NExA table are fixed and although they are reviewed they are not updated on a yearly basis in line with the yearly AQ review, therefore the AQ values can quickly become outdated. On January 20th 2012, the Authority decided that Modifications UNC392 and iGT040v to amend the AQ values in the CSEP NExA table be implemented, this resulted in a downward revision of the AQ values, calculated based on included data from the 2010 AQ Review

With the continued energy efficiency measures the domestic market has undertaken and the general demand reduction measures consumers are applying, It is now appropriate that, not only should the CSEP NExA table to be reviewed in accordance with iGT 051 ANC - amendment of iGT AQ Review Procedures Document, but also updated annually. This will allow the transporters to accurately plan their network capacity and pipeline users to accurately price domestic new connection customers based on the most up to date AQ values available.

Rather than updating the CSEP NExA table once it would make more economic sense to update the table on a yearly basis, this would make the table more reflective of market forces being applied and government incentives e.g. Green Deal, SMART, etc

With the implementation of the SMART metering rollout over the next 6/7 years, consumers will become savvier in the way they consume energy and usage patterns are expected to alter as a result. By changing the tables on a yearly basis, the AQ values will be more reflective and more accurate, taking into account customer behaviour whilst they adapt to SMART, and other incentives.

Having a yearly update to the CSEP NExA table would tie in with the proposed rolling AQ's as part of Nexus. The AQ's would be updated on a monthly basis, therefore, updating the table on a yearly basis should be relatively straight forward as the bulk of the AQ's will be accurate.

In summary

The purpose of this Modification is to:

Enable an annual update to the CSEP NExA Annex A Part 8 to be carried out, based on a revised AQ values being reviewed on a yearly basis in line with the Development work carried out at iGT 053

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3 Solution

Under Annex A, Part 1 of the NExA, iGTs are required to undertake an AQ Review for all Large and Small Supply Points, the procedure following the same process and timescales as those applied by Large Gas Transporters in accordance with the Uniform Network Code.

IGTs are also required to adopt the AQ values present within the CSEP NExA AQ Table for the purpose of calculating domestic transportation charges through the Relative Price Control (RPC) Charging Methodology.

However the movement in any AQ'S following a review, do not change the IGTs charging (as this is set on the basis of the CSEP NExA table). Annually, following the completion of an AQ Review, analysis of the AQ values present within the AQ Table is performed to ensure that they remain fit for purpose and a reasonable estimate of the value of gas consumed in accordance with house type and geographical location.

Following on from the work carried out at iGT 053 development workgroup, the general consensus between iGTs and Shippers is that Annex A, Part 8 of the NExA should be amended on an annual basis. The group all agreed that using accurate and reflective data was the correct thing to do

Under Nexus, the CSEP NExA tables may come under the iGT Arrangements Document (IAD), however the table itself will still need updating on a yearly basis. This modification will provide an enduring solution post Nexus. It was suggested by the iGT 053 Development group that a fixed date each year would need to be agreed, that could be used for the AQ values to be updated in the table

Previously, the methodology used by all iGTs in the calculation of the revised AQ is detailed as follows: IGTs individually collated AQ data using a standard template (C1) using the following rules This is a format that they have utilised on other forms of data collation for Ofgem and is consistent with the approach also being used for UNC Modification 0481 and iGT 060.

One tab was used per licence held, inputting the average AQ per property type for each of the three geographic areas and the number of individual supply points used to derive that average.

IGTs reported from the AQ review output files, not from the overall portfolio. If an AQ had not been reviewed, it was not included in the dataset. The AQ used was the final AQ that was taken as the revised AQ value. Where an iGT has no values for a type of property the cell AQ and number were left blank.

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The following were excluded from the AQ data:

- * Infill domestic property AQs.
- * Non-domestic property AQs.
- * Where an installation read was used in the AQ calculation.
- * There was no AQ change because the site became live less than 26 weeks prior to the cut off read date.
- * There were no reads with which to calculate the AQ.
- * The AQ changed outside the +100% / -50% tolerance and the Calculated AQ is used as it was not challenged, or challenged unsuccessfully.
- * AQs changed using the Large Transporter's agent adjustment factors based on the change from the old to new weather correction data.

The following were included in the AQ data:

- * Only properties deemed to be new housing when first connected to a gas connection.
- * The AQ changed outside the +100% / -50% tolerance, but the new AQ is used as the shipper successfully challenged the old AQ being used.
- * All other AQ values calculated as part of the most recently completed AQ Review using meter reads (for clarity it also includes those above the 2,500 therm threshold).
- * Only house types that are listed in Table 1 in Appendix CI-1 of the Code. In terms of the volume of mprns included in the calculation, this is included in the table below

The intention is that the same methodology is used to derive any new values to be used to update the table accordingly.

Costs

| User Pays |
|--|
| Classification of the modification as User Pays, or not, and the justification for such classification. |
| This Proposal is not User Pays because no user pays service is created or amended, and no Transporter Agency costs are anticipated as a result of implementation. |
| 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. |
| N/A |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve. |
| N/A |

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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. | 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. | 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 |

The allocation of energy and transportation costs between Shippers will change as a result of:

1. Increased accuracy of AQ values as a result of bringing them up to date
2. The continued energy efficiency measures the domestic market has undertaken and
3. The general demand reduction measures consumers are applying

More appropriately, targeting of costs is consistent with facilitating the securing of effective competition between Shippers. It will reduce costs for the pipeline operators, improve the overall customer experience and keep costs down for them

The reduction in energy allocation will allow for better pricing structures and make tariffs more reflective year on year and in turn improve the customer service experience as suppliers will be able to offer cost .reflective prices.

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5 Implementation

It is proposed the Implementation date for this modification will need to co-incide with IGT mod (053), but no later than 1st October 2014

6 Legal Text

Legal text will be provided.

7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should progress to consultation