Rough Order of Magnitude (ROM) Analysis

for

Review of LDZ Customer Charges

UNC Modifications 418 and 418A

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Disclaimer:

Change Driver / Origin

Gas Distribution Networks (GDNs) have been carrying out a programme of work agreed with Ofgem shortly after Network Sale to make Local Distribution Zone (LDZ) transportation charges more cost reflective by basing them on GDN specific costs rather than the national costs on which the charges are currently based.

LDZ System charges have been reviewed under DNPC08, now GDNs are looking to revise the structure of the LDZ Customer Charge to put them on a GDN specific basis. Two Uniform Network Code (UNC) Modifications (Mods) have been raised for this purpose; Mod418 raised by Scotland Gas Networks on behalf of all GDNs and Mod 418A raised by Centrica.

Analysis

The current LDZ Customer Charge has a capacity element and a fixed charge element depending on the AQ of the Supply Point.

Mod418 looks to modify the charging structure of the LDZ Customer Charge to incorporate individual GDN costs on which to calculate the charge rates for each GDN instead of utilising the cost structure mirroring costs from Network Sales.

The Mod proposes the following cost categories to make up the LDZ Customer Charge:

   (1) Emergency Service Costs: *costs for emergency teams to attend leaks reported downstream of the main*
       - same single flat rate charge applies to all Supply Points.

   (2) Service Replacement Costs: *costs for replacement of services funded or adopted by the Transporter; also includes costs associated with leakage.*
       - 7 of the 8 networks apply flat rate for band 1 (0-73,200kWh) and a higher flat rate for the other bands, 1 network applies a single flat rate across all bands.

   (3) Asset Related Costs: *depreciation of the capital cost of services funded by the Transporter, mostly associated with the Domestic Load Connection Allowance (DLCA).*
       - same single flat rate applies to all Supply Points.

   NB Section2 of the Mods (418 and 418A) provide additional information on the cost categories.

The proposed LDZ Customer Charge bands are as follows:

   (1) 0 – 73,200 kWh

   (2) 73,201 – 732,000 kWh

   (3) > 732,000 kWh

Mod418A is an alternate to the GDNs proposal and would utilise the same cost categories, as above, with charges applied as follows:

   (1) Emergency Service Costs – same single flat rate charge applies to all Supply Points.

   (2) Service Replacement Costs – 7 of the 8 networks apply flat rate for the lower band with a higher rate for the other bands, 1 network applies a flat rate across all bands.

   (3) Asset Related Costs – flat unit rate (pence per kWh) applied to all Supply Points.

A summary of the current and proposed LDZ Customer Charge structure is shown below:

Charge Structure		AS - IS		418 PROPOSAL	418A PROPOSAL	
	Charge	CCA	CFI	Aggregate Customer Charge	Aggregate Customer Charge	Asset Related Costs
Charge Bands	0 - 73,200 kWh	fixed unit rate (*pence per peak day kWh per day*)	na	single flat rate per SP per day	single flat rate per SP per day	single unit rate per kWh
	73,201 kWh to 732,000 kWh	fixed unit rate (lower than in SSP band) (*pence per peak day kWh per day*)	fixed charge (*depending on meter read frequency*)	single flat rate per SP per day	single flat rate per SP per day	
	> 732,000 kWh	unit rate (*uses SOQ of SP calculated using exponential value*)	na	single flat rate per SP per day	single flat rate per SP per day	

The latest versions of both Mods are attached below for information purposes:

Mod 418 v2   Mod 418a v2

Y:\Shared\   Y:\Shared\
NGSRV51H003\TeamI   NGSRV51H003\TeamI

Solution Options

MOD 418 effectively replaces the current CCA and CFI structure with a flat rate per Supply Point per day to cover the three cost categories noted above. Options 1,2,3 assume one or both of these charge types could potentially be re-used for the new charge structure.

MOD 418 **Option 1** – re-use of CCA charge type / zero rate CFI
   includes changes to CCA charge calculation / the Ratchet process (to remove CCA element) / the pricing template and invoice/supporting information files.

MOD 418 **Option 2** – re-use the CFI charge type / zero rate CCA
   includes changes to CFI charge calculation / Unique Sites (which does not currently include CFI) / the pricing template and potential changes to the Ratchet process (assumed no impact as CFI not a component of ratchet penalty and CCA are effectively removed by being zero rated) and invoice/supporting information files.

MOD 418 **Option 3** – a new Customer Charge type / zero rate CCA & CFI
   includes the creation of a new charge type for the new Customer Charge / zero rating or removal of the existing CCA & CFI.

MOD418a would also apply a single rate per Supply Point per day for part of the charge (Emergency and Replacement), but the Asset Related Cost element is charged on capacity (pence per kWh), so the perceived options are:

MOD 418a **Option A** – re-use both CCA and CFI
   Includes changes to the CCA and CFI calculation – per 418a rules. The capacity element would be included within the Ratchet charge rate, therefore use CCA for the Asset Related Cost and use CFI for Emergency & Replacement (charge per Supply Point).

MOD418a **Option B** – create two new charge types
   includes the creation of two new charge types for (1) Asset Related Cost (charged per kWh) and (2) Emergency & Replacement (charged per Supply Point per day). The 'redundant' CCA/CFI charge types either zero rate (effectively removes from invoicing) or remove entirely.

ROM Costs & Timescales
Note: ROM information is not based on any formal systems analysis and should be used with caution.

Estimated costs:
The solution will cost at least **£500k**, but probably not more than **£950k**.

Estimated duration:
Note: durations are subject to Xoserve resources and priorities at the time that documents are received.
Completion of the Analysis and Delivery (including user testing and post implementation support):
Approximately 10 to 12 months

Timescale guidance:

- Delivery of the change will be subject to approval of an appropriate UNC Modification and Xoserve resources and priorities following submission of the Change Order to Xoserve.
- The estimated timescales are elapsed time and does not include response times to approval of the Change Order and associated documents.
- Estimated project duration should be sufficient for file format changes to be discussed/approved at UKLink Committee.

Project costing assumptions:

- It is assumed that detailed Analysis will be required to capture all requirements, affected processes, and to confirm the technical design as a basis for robust costing and implementation planning.
- Estimated costs are based on changes to existing online / offline systems and processes.
- Estimated costs are based on this progressing as a stand-alone implementation. Economies of scale may be achieved if the change could be bundled with similar changes.
- The estimated costs, above, are the full costs for a system solution.

Xoserve cost estimates included:

- Further Xoserve evaluation.
- Detailed analysis and application development.
- Infrastructure service implementation.

Xoserve cost estimates not included:

- Xoserve Operations Team and IS Operations costs to support implementation of the solution.
- Environment costs.

Customer costs not included:

- Changes to shipper systems if invoicing/SPA file format changes required.
- Shipper testing.

Assumptions

- These UNC MODs (418 and 418a) are mutually exclusive and that only one of the Solution Options would be required to implement the required change.
- For all options (unless shown otherwise) estimated costs assume changes required to UKLink, Billing2000, IP, Contact Management System (CMS), Unique Sites, CSEPs & other offline billing systems that calculate LDZ Customer Charges, where changes will be required to:...
    - LDZ Capacity invoice processes / charge calculation.
    - Exit Commodity Invoice processes (e.g. Ratchets).
    - Invoice verification.
    - The Pricing Template.
    - SPA processes (options 3 & B).
    - The Adjustments processes.
    - Reporting.
    - Invoice query processes.

    NB This may not be the exhaustive list of all impacted systems/processes.

Concerns

- This requires a substantial change to current systems and with UKLink Replacement on the horizon, any possible benefits may not be realised prior to UKLink Replacement implementation.

Impacts on Xoserve

- Minimal impacts on Xoserve as change would require either enhancement of the current invoicing process or replacement of one invoicing process with another.

Impacts on Distribution Networks

- DNs would be required to calculate the Customer Charge rate(s) and provide them to Xoserve for uploading to all relevant Invoicing systems.

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Other Impacts

- Shippers may be required to make system changes if file formats are changed as part of the change.