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(24hrs)

\*calls will be recorded and may be monitored

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10<sup>th</sup>, June, 2013

: Your Reference: UNC Modification Proposal 0428 & 428a.

**Re: UNC Modification Proposal 0428 & 428a: Single Meter Supply Points**

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposals

**Do you support or oppose implementation?**

We fully support the implementation of Modification Proposal 0428 but only have mild support the implementation of Modification Proposal 0428A.

**Please summarise the key reason(s) for your support.**

As stated in our proposal, we believe that the aggregation of meter points (MPRNs) into supply points is an outmoded method of treating transportation arrangements, given that the mechanism has its roots in the pre-competition gas supply contracting arrangements, and bears no reflection of the physical arrangements for gas transportation. After almost 20 years of aggregating in MPRNs into supply points for transportation charging purposes, and bearing in mind we are currently in the process of specifying the next generation of UK-LINK, now is an appropriate juncture to question whether or not we should perpetuate the practice.

We are not simply seeking to justify the removal of multi-metered supply points on the back of a nut & bolt rebuild of the system, this is more about ensuring that transportation arrangements are cost reflective, and non-discriminatory going forward. If we can meet that requirement while reducing the functionality required in the system, and simplify the UNC in the process, then the implementation 428 will have primary & secondary benefits.

The key principle we are choosing to apply is that all connections to the network should be treated in the same way, irrespective of whether or not the gas flowing through the ECV feeds a stand-alone premise or feeds a single building at a large industrial complex. Where the throughput and profile to an MPRN resembles another, the booked SOQ, or the appropriate algorithm should determine the transportation charges, whether or not the MPRN is related to the one near by should not be a factor. We do not believe it is appropriate to give a transportation discount to customers with more than one MPRN at their premises simply because the premises contracts for gas using an aggregate gas supply arrangement.

While we acknowledge that MP 428a is a step in the right direction, we believe that it falls short of an acceptable long term solution for a number of reasons:

- The implementation date is inappropriate: if it is right to prevent further aggregations, it is right to stop them immediately, not wait until the implementation of the next generation of UK-Link systems
- It does not address the fact that transportation discounts are being applied on the basis of supply arrangements and these would be allowed to continue indefinitely into the future.
- It would require the new UK-Link system to be built to accommodate a diminishing number of multi-metered supply points.

As part of the MP 428a, several points of justification for the proposal were embedded within the proposal and we would like to comment on some of those points:

### **Network Design**

With respect to network design, the point raised is that an aggregated SHQ & SOQ for daily read meters is better for network design than individual values as a degree of diversity can be factored into the single, virtual point load. Additionally, the supply point SOQ can be booked with a degree of diversity already factored into it.

Our view is that, generally, if DM Supply points are individually allocated with SHQ and SHQ, the increased granularity resulting from knowing the specific points of offtake could aid the understanding of demands and network design. In any event, all point loads are factored into the network designs as diversified loads, so the increased point load information achieved by disaggregating would result in all MPRN offtakes being factored onto the network design in a uniform way.

In terms of the individual metered loads offsetting each other at different times of the day is in theory a possibility, but it does require both offtakes to be connected to the same part of the network, to offer a degree of mutual offset. While it is true that mutual SHQ offsetting may exist at a handful of sites, we do not believe this is a material factor when it comes to network design and, in any event, where the loads are off discrete parts of the network, individual points loads will give extra granularity and we can apply standard diversity to all connected loads with a uniform methodology.

### **Supply Point Transfers**

With respect to supply point transfers, we did raise this as an issue early in discussions, as we had reason to suspect that the supply point aggregation arrangement aided the supply point transfer process. At the time we stated that could retain supply points for supply contracting and registration purposes, and that the facility could have been extended to group contract arrangements. Since there was no overwhelming support for this facility, the initiative was not pursued.

### **Supply Points - a History**

There is an assertion in MP 428A that multi-metered supply points were put in place for the benefit of the transporter so that new gas load could be brought on stream with the minimum of investment. The concept of supply point is one that existed in supply contracts long before competition and were a result of the practice of British Gas of selling gas in volume bands. Consequently, rules were put in place to allow metered consumption at "single premises" to be assessed as a single volume. Multi-premise agreements enjoyed a further discount. The practice of bulking together meter points into single loads carried over from the pre-Network Code period into the transportation regime that exists now in UNC TPD Section G1.4, which details the rules by which by which MPRS can be aggregated. The key point of note was that premises agreements were about supply, not about the transportation: supply could be added together as a homogenous product but transportation is by its physical nature a series of individual engineering products.

The attached scan is from the 1992 gas supply pricing schedule and recognises that premises could be classed as contract loads by looking at the total consumption of all pipes feeding the customer.

This Schedule supersedes Schedule F14 effective from 3rd June 1992.

Pursuant to Condition 5 of its Authorisation, British Gas will enter into Special Agreements (contracts) with Customers under this Schedule F15 for the supply of gas through pipes to premises which they own or occupy, each premises consuming in excess of 732,678 kilowatt hours per annum in the case of Firm supplies of gas, or 5,861,420 kilowatt hours per annum in

Current practice, for bringing new load on-stream is achieved by either taking increased volumes through existing mains and services (and extending the customer's outlet pipe-work) or laying a new service & meter to a point on the customer's premises at the most convenient point for connecting to the new plant. In both circumstances, the most economic solution would be sought. The decision would factor in the location of the existing services / customer's plant / premises / service length / availability of a main. If additional gas is required, the additional consumption will either benefit from the virtual inclusion in the existing meter point(s) by Supply Point aggregation, or if taken through the existing service, from inherent inclusion in the premise demand profile. As part of the debate at the Workstream it was asserted that had customers known that these arrangements were coming in, different decisions would have been made and, wherever feasible, opted for the new load to be taken through an existing service pipe.

As you can see from the age profile of the MPRNs that are now included in the multi-meter supply point population, most of those decisions were made many years ago (99.63% of all the supply points sampled are more than 5 years old). On that basis, the vast majority of affected supply points will have been in that state for many years and the benefits of aggregation will, to a greater or lesser extent, have already accrued and therefore all decisions made in the past can be justified as being correct.

In any event, to ensure that aggregation benefits assumed by past decisions are released, we are proposing that effective implementation should be just prior to the new system being commissioned. One could argue that the proposal should be implemented immediately to release the distributional effect on transportation charges promptly, but we are mindful that this is a significant change and the consequences need to flow through into supply arrangements; this will take time to administer. For that reason we are compromising the "transportation pure" implementation date to accommodate the wider ranging whole industry consequences, while being mindful that the new system places a back-stop date on this compromise.

**Are there any new or additional issues that you believe should be recorded in the Modification Report?**

Yes, we would like to draw Ofgem's attention to two matters raised during the drafting of this report:

- **NTS Supply Points.**

During the development of this proposal, a question was asked about whether or not NTS Supply Points should be included. After working with NTS to examine the metering arrangements included in the NTS NEXA, we now know that NTS supply points are self excluding from the proposal and that would fulfil the requirements of single meter supply point proposal without further consideration.

- **MPRN Age Profile.**

As part of the development process, a question was asked about how long these meter points have been in existence, and to answer that question we 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, we believe we 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.

**Relevant Objectives:**

We believe that the implementation of MP 428 furthers relevant objectives c), in so far that we believe that a single meter supply points regime would ensure that like-for-like transportation loads were treated in a like-for-like manner with regards transportation charges. This is fully consistent with our with the “**relevant methodology objectives**”, as set out in Standard Special Condition A5 of our licence.

MP 428A, given that it provides arrangement that permits multi-metered supply points to perpetuate indefinitely, does not facilitate this relevant objective.

To a lesser extent, relevant objective d) is also facilitated given that we believe that transportation costs, would, across all supply points, be better reflective of the costs associated with the individual transportation arrangement. While there has been considerable focus on the general increase in transportation costs for the directly affected supply point population, we would also like to draw attention to the marginal decrease in transportation charges to the indirectly affected supply points. We believe the more appropriate targeting of costs generally promotes competition between suppliers. Both proposals further this relevant objective to varying degrees.

**Impacts and Costs:**

The cost of implementing the proposal is minimal. There may be some marginal cost associated with managing the transition, but overall, implementation costs would be minor. The principal system build cost benefit is that the new generation of UK-Link could be built without the layer of data processing complexity that multi-meter supply points would require.

**Implementation:**

It is proposed that these new arrangements are implemented so that the 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, we have had include a term in the legal text to accommodate this, as yet, unknown date. This will be a common feature in all the Nexus related legal text.

**Legal Text:**

NGD is satisfied that the text, as published by the Joint Office and referenced within the Draft Modification Report meets the requirements of the Modification Proposal.

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 TDIIIC15

**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 TDIIIC 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 TDIIIC 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.

**Is there anything further you wish to be taken into account?**

No.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653559 ([alan.raper@nationalgrid.com](mailto:alan.raper@nationalgrid.com)) should you require any further information.

Yours sincerely,

Alan Raper  
National Grid Gas, Distribution