

Stage 02: Workgroup Report

0385:

Inclusion of DNOs as Users in User Pays Arrangements

What stage is this document in the process?



This Proposal would enable an apportionment of User Pays implementation costs amongst all UNC parties to be included within User Pays Modification Proposals.



The Workgroup recommends that this self-governance modification should now proceed to Consultation



High Impact:
Insert name(s) of impact



Medium Impact:
DNO Users



Low Impact:
Insert name(s) of impact

0385

Workgroup Report

18 August 2011

Version 0.1

Page 1 of 14

© 2011 all rights reserved

Contents

1	Summary	3
2	Why Change?	4
3	Solution	6
4	Relevant Objectives	7
5	Impacts and Costs	8
6	Implementation	12
7	The Case for Change	13
8	Recommendation	14

About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 15 September 2011, on whether Modification 0385 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.


Any questions?
Contact: Joint Office
 enquiries@gasgovernance.co.uk
 0121 623 2115
Proposer: Phil Lucas
 phil.lucas@uk.ngrid.com
 01926 653546
Transporter: National Grid Transmission
Xoserve:
 commercial.enquiries@xoserve.com


0385
Workgroup Report

18 August 2011

Version 0.1

Page 2 of 14

© 2011 all rights reserved

1 Summary

Is this a Self Governance Modification

The Modification Panel determined that this is a self-governance modification.

Why Change?

Due to the definition of "User" in the UNC Modification Rules, it is not possible at present for a UNC Party to propose an apportionment of implementation costs in a User Pays Modification Proposal specifically to DNO Users (they can be allocated to DNOs as transporters, but not as Users).

Solution

It is proposed to amend the UNC Modification Rules such that a DNO User may be regarded as a "User" for the purposes of a User Pays Modification Proposal.

Impacts & Costs

In the event of implementation of this modification, UNC parties will be able to propose an apportionment of, and subsequently allocate, implementation costs specifically to a greater range of UNC Parties in a User Pays Modification Proposal.

There are no systems or ongoing costs associated with the implementation of this modification.

Payment of any resultant User Pays charges by DNO Users (pursuant to the implementation of a User Pays Modification) would be managed in accordance with the existing agreement between the Transporters in respect of the Transporter Agency as opposed to such charges being levied in accordance with Section S of the UNC Transportation Principal Document.

Implementation

As this is a self-governance modification, implementation can be 16 business days after a Modification Panel decision to implement.

The Case for Change

By supporting a greater range of cost allocations, implementation could increase cost reflectivity and help to avoid inappropriate cross-subsidies.

Recommendations

The Workgroup recommends that the modification should be issued for consultation.

2 Why Change?

Section 6.2.5(c) of the UNC Modification Rules requires that where a User Pays Modification Proposal proposes that Users pay a proportion of the implementation costs, the Proposal should contain:

- (i) an apportionment of the implementation costs between Users and Transporters; and
- (ii) an apportionment of the implementation costs between Users.

The definition of a User in the UNC Modification Rules is as follows:

“User”: for the purposes of these Rules, references to a User in the context of an Individual Network Code Modification Proposal includes “Relevant Shipper” and in all contexts excludes DNO User.”

Future modifications to the UNC would benefit from the ability to attribute cost apportionment between DNO Users and Shipper Users as one class of beneficiaries to a User Pays Proposal, or specifically to DNO Users, in order to demonstrate that subsequent User Pays costs are to be allocated on a non-discriminatory basis between all potential beneficiaries of such a modification.

In the event that a modification is expected to benefit DNO Users, Shipper Users and National Grid NTS to different degrees, it would be appropriate for the Modification Rules to facilitate an apportionment of the costs of its implementation among all these parties in accordance with the User Pays Guidance Document.

XXX However, at present the definition of User in the Modification Rules unnecessarily restricts a Proposer’s ability to describe and propose cost allocation where such Proposals seek to identify DNO Users as a unique beneficiary or as a beneficiary arising through being part of a User group which shares the benefit equally.

Subsequent to the implementation of Modification 0195AV, DNOs have the ability to apply for, and be registered as holding, NTS Exit Capacity to the same extent as Shipper Users and accordingly the UNC Modification Rules need to recognise that there is potential for User Pays Modification Proposals (i.e. those aimed at changing the NTS Exit Capacity Arrangements) to enable an apportionment of implementation costs between DNO Users as well as Shippers Users.

Examples of where such a specific allocation of costs may be, or may have been necessary are as follows:

- Modification Proposal 0351 ‘Enduring Exit Overruns – Deemed Applications’

Although this Proposal was withdrawn, it advocated the introduction of terms related to the booking of Enduring Annual NTS Exit (Flat) Capacity at NTS Exit Points. Accordingly, the proposer believed the Proposal would have potentially provided a clear benefit for all relevant parties; DNO Users, Shipper Users (at relevant NTS Exit Points) and National Grid NTS. Therefore, specific allocation of these costs between respective parties may have been required to reflect the level

of benefit each party (or group of parties) would potentially have obtained.

- Modification Proposal 0381 'Removal of the NTS Exit (Flat) Capacity "deemed application" process'.

Subsequent to the withdrawal of Modification Proposal 0351, Wales and West Utilities has raised this Proposal which seeks to remove the automatic (deemed) application for Enduring NTS Exit (Flat) Capacity in Year+4 that is triggered from a Chargeable NTS Exit (Flat) Capacity Overrun. Within the description of the Proposal it is proposed that User Pays costs are apportioned as follows:

"As this Modification Proposal relates to NTS Exit (Flat) Capacity and UNC TPD Section B, for the purposes of User Pays, DNOs are classified here as Users and National Grid NTS are the only relevant Gas Transporter.

In accordance with the principles set out in the User Pays Guidance the Proposer suggests that, if there are any central system costs, the proposed split of implementation costs is 50:50 between Users (Shippers & DNOs) and NG NTS."

Payment of any resultant User Pays charges by DNO Users (pursuant to the implementation of a User Pays Modification) would be managed in accordance with the existing agreement between the Transporters in respect of the Transporter Agency. Following discussion with Distribution Network Operators, it has been agreed that this would represent a more efficient and economic approach than such charges being levied in accordance with Section S of the UNC Transportation Principal Document.

Existing Transporter Agency funding arrangements require each Transporter to make monthly contributions to cover projected future Transporter Agency costs. In the event of implementation, such projections would incorporate any specific User Pays charges to be incurred by DNOs. At the conclusion of the year, reconciliation of each Transporter's aggregate contributions to actual costs incurred would be undertaken.

Accordingly, DNO payments in respect of User Pays charges would effectively constitute pre-payment (payment before delivery of a service) and therefore does not place any additional credit risk on the counterparty.

3 Solution

It is proposed to amend the UNC Modification Rules such that DNO Users may be regarded as a "User" where a User Pays Modification Proposal proposes to apportion costs specifically to them.

All Transporters have agreed that in the event of implementation, a change to paragraph 1.3 of the Agency Charging Statement will be pursued to provide that User Pays costs incurred by DNO Users will be payable pursuant to the existing agreement between the Transporters in respect of the Transporter Agency.

Suggested Text

UNIFORM NETWORK CODE - MODIFICATION RULES

Paragraph 2.1 Defined Terms

Amend the definition of User to read as follows:

" **User**": for the purposes of these Rules references to a User in the context of an Individual Network Code Modification Proposal includes a Relevant Shipper and in all contexts excludes a DNO User (other than in the context of a User Pays Modification Proposal that includes a proposal for payment of the User Pays Implementation Costs, or a proportion of them, to be made by a DNO User);"

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

Section B

Amend paragraph 1.7.14 to read as follows

" Where any User Pays Modification Proposal is not implemented but it is determined that a portion of the Implementation Costs should be paid by Users in accordance with the User Pays Charge set out in the Agency Charging Statement, such User Pays Charge shall be ~~invoiced in accordance with Section S.~~ charged as set out in the Agency Charging Statement.

4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objectives a, b, c, d, e and f.**

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

Description of 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.	See below
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.	See below
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	See below

Relevant objective (c)

This Proposal would more effectively demonstrate that charges for User Pays Services do not unduly discriminate or unduly prefer any person or class of persons as required by Licence Condition A15(11) of the DN and NTS Licences. From this perspective this licence condition would be more efficiently (and transparently) discharged.

Relevant objective d(iii)

This Proposal will enhance effective competition between DNOs and between DNOs and relevant shippers by enabling cost apportionment proposals for User Pays charges to be applied to DNO Users as well as Shipper Users, thus creating visibility for the industry that such apportionment mechanisms are being applied on a non-discriminatory basis.

Relevant Objective (f)

This Proposal will promote efficiency in the implementation and administration of the Code by removing a potential barrier to the transparent apportionment of costs within a User Pays Modification Proposal to all Users who benefit from such a Proposal.

0385

Workgroup Report

18 August 2011

Version 0.1

Page 7 of 14

© 2011 all rights reserved

5 Impacts and Costs

Consideration of Wider Industry Impacts

The Workgroup does not consider the modification is likely have wider industry impacts as it only impacts the UNC.

Costs

Indicative industry costs – User Pays
Classification of the proposal as User Pays or not and justification for classification
This is not a User Pays Modification Proposal.
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	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> None
User Pays implications	<ul style="list-style-type: none"> It will be possible for UNC parties to propose apportionment of implementation costs of a User Pays Modification Proposal specifically to, and among, DNO Users as well as Shipper Users.

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> None

Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • None. The level of Shipper User contributions to User Pays Modification Proposals would be unchanged by this Proposal.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> • None
Development, capital and operating costs	<ul style="list-style-type: none"> • Where DNOs are identified as beneficiaries of a User Pays Proposal, the aggregate level of DNO contributions will be unchanged; however there will be greater transparency within a Modification Proposal regarding DNO's contributions.
Recovery of costs	<ul style="list-style-type: none"> • None
Price regulation	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None
Standards of service	<ul style="list-style-type: none"> • None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> • Amendment to the definition of "User" to include DNO Users where a Proposal proposes to apportion User Pays charges specifically to DNOs as a separate class of User or as a group of Users which include Shipper Users.
UNC Committees	<ul style="list-style-type: none"> • None
General administration	<ul style="list-style-type: none"> • None

Impact on Code	
Code section	Potential impact
Modification Rules	As stated under 'Impact on Code Administration' above.

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
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
Agency Charging Statement (TPD B1.7.11)	All Transporters have agreed that, in the event of implementation, changes to this document will be required to reflect the preferred approach to the settlement of DNO User Pays charges as described in this Proposal.

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None

Impact on Core Industry Documents and other documents	
Gas Transporter Licence	This proposal will more effectively demonstrate that charges for User Pays Services do not unduly discriminate or unduly prefer any person or class of persons as required by Licence Condition A15(11) of the DN and NTS Licences.

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

6 Implementation

The proposer believes that this Proposal could be implemented with immediate effect.

Our preferred timeline is as follows:

May 2011	Proposal considered by UNC Modification Panel
June/July 2011	Assessment of Proposal in Workgroup
August 2011	Workgroup Assessment presented to UNC Modification Panel and Proposal issued for consultation
October 2011	UNC Modification Panel makes recommendation and Final Modification Report issued to Ofgem for a decision
November/ December 2011	Ofgem decision expected

7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

- No advantages, additional to those identified above, have been identified.

Disadvantages

- No disadvantages have been identified

8 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0385 be submitted for consultation.