

## Stage 02: Workgroup Report

# 0418 and 0418A: Review of LDZ Customer Charges

At what stage is this document in the process?



The modifications propose changing LDZ Customer charges to base them on current Network costs



The Workgroup recommends that these modifications should proceed to Consultation



High Impact:



Medium Impact:  
Distribution Networks, Users



Low Impact:

0418  
Workgroup Report

05 April 2013

Version 0.2

Page 1 of 20

© 2013 all rights reserved

## Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Legal Text
- 9 Recommendation

## About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 21 March 2013, on whether Modifications 0418 and 0418A should proceed to consultation and to submit any further recommendations in respect of the assessment of these modifications.



### 3 Any questions?

4 Contact:  
Joint Office

6  [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

11  0121 623 2115

14 Proposer:  
17 0418 Scotia Gas  
18 Networks

19  [joel.martin@sgn.co.uk](mailto:joel.martin@sgn.co.uk)


 07966317785

Proposer:  
0418A British Gas

 [andy.manning2@centrica.com](mailto:andy.manning2@centrica.com)

 07789 575553

Xoserve:

 [commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

0418  
Workgroup Report  
05 April 2013

Version 0.2

Page 2 of 20

© 2013 all rights reserved

# 1 Summary

## Is this a Self-Governance Modification

The Modification Panel determined that these are not self-governance modifications.

## Why Change?

The DNs have been carrying out a programme of work agreed with Ofgem shortly after Network Sales to make LDZ transportation charges more cost reflective by basing them on DN specific costs rather than the national costs on which the charges were based at Network Sales. DNPC05 reviewed the split of DN costs between System costs and Customer costs and put the split on a DN specific basis. DNPC08 reviewed the structure of the LDZ System charges and put them on a DN specific basis. The DNs have now reviewed the structure of the LDZ Customer charges and so they can be put on a DN specific basis.

## Solution

Both modifications are proposing that Customer charges be put on a DN specific basis and also that the structure of the charges be altered to reflect the costs incurred.

## Impacts & Costs

A restructuring of the customer charges will have distributional impacts, with some meter points facing increased transportation charges and others reductions.

Xoserve system costs are anticipated but it is not envisaged that there would be any increased administration costs for shippers.

## Implementation

No implementation timescale is proposed. As the charge change date specified in DN Licences is 01 April, the DNs suggested that the target implementation date should be 01 April 2014. However, some parties felt this was insufficient notice and implementation should be no earlier than 01 April 2015.

## The Case for Change

The case for change is to improve the cost reflectivity of the LDZ Customer charges and to complete the programme of work agreed with Ofgem to put all the LDZ transportation charges on a DN specific basis.

## Recommendations

The Workgroup recommends that these modifications should now proceed to consultation.

## 2 Why Change?

The DNs have been carrying out a programme of work agreed with Ofgem shortly after Network Sales to make the structure of LDZ transportation charges more cost reflective by basing them on DN specific rather than national costs. DNPC05 reviewed the split between System and Customer costs and put the split on a DN specific basis. DNPC08 reviewed the structure of LDZ System charges and put them on a DN specific basis. The DNs have now reviewed the structure of the LDZ customer costs with a view to setting customer charges on a DN specific basis.

Currently, apart from the relatively small fixed charges in the charging band 73.2-732MWh, all customer charges are based on supply point capacity (SOQ). The DNs have examined whether, given the costs that are reflected in customer charges, an alternative charging structure might be more cost-reflective. The costs reflected in customer charges are:

**Supply Point Emergency Service Costs:** These costs are mainly the costs of the emergency teams which are called out when a leak is reported downstream of the main. The costs of call-outs relating to mains are not included as these are treated as LDZ system costs. The costs include an allocation of call centre costs and overheads. From the DNs' investigations there is no evidence to show that these costs vary with the size of the supply point SOQ.

**Services Replacement Costs (Repex):** These costs are the costs of the replacement of services funded by the transporter or adopted by them. The cost evidence available provides a breakdown into costs for domestic and non-domestic supply points, but is not sufficiently detailed to provide evidence that costs vary by supply point size within the categories of domestic and non-domestic.

**Leakage** is a relatively small element of the costs associated with services that is too small to be treated as a separate cost category. It is included with Replacement because, for the purposes of cost recovery, this is considered the most appropriate cost category.

**Asset Related Costs: Services Depreciation:** The depreciation costs reflected in the customer charge are almost entirely depreciation of the capital cost of services funded by the transporter. The Domestic Load Connection Allowance (DLCA) is a statutory allowance set out in the Gas Act (1985), as a result of which the transporter does not charge for the first 10 metres of service laid in public property to domestic properties situated within 23 metres of an existing main. Since the separation of the British Gas Corporation into Transportation and Trading in 1994, all non-domestic connections and other domestic connections have been funded by the connectee. Therefore the great majority of the depreciation on services which is reflected in the customer charge can be attributed to the DLCA. There may be some depreciation relating to non-domestic services dating back to before 1994 when many British Gas Regions gave Load Connection Allowances to non-domestic connections, but the proportion this represents of the total is now very low.

**Asset Related Costs: Network Rates:** The Network Rates reflected in the customer charge are based on the same capital cost of services funded by the transporter as the depreciation and are treated in the same way.

The table below shows the relative importance of the costs which are reflected in the customer charges for each Network.

	Scotland	Southern	Wales & West	Northern
<b>Emergency:</b>				
Direct Costs	18.1%	17.3%	16.5%	14.1%
Opex+Work Management	3.6%	2.8%	5.0%	2.9%
<b>Total Emergency</b>	<b>21.7%</b>	<b>20.0%</b>	<b>21.5%</b>	<b>17.0%</b>
<b>Replacement:</b>				
Direct Costs	27.6%	32.4%	26.6%	22.1%
Opex+Work Management	5.4%	5.2%	8.1%	4.5%
Service Leakage	2.0%	2.1%	2.8%	2.6%
<b>Total Replacement</b>	<b>35.0%</b>	<b>39.6%</b>	<b>37.5%</b>	<b>29.1%</b>
<b>Asset Related Costs:</b>				
Regulated Depreciation	29.8%	25.1%	26.8%	32.7%
Network Rates	13.5%	15.3%	14.1%	21.2%
<b>Total Asset Related Costs</b>	<b>43.3%</b>	<b>40.4%</b>	<b>41.0%</b>	<b>53.9%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>

	East of England	London	North West	West Midlands
<b>Emergency:</b>				
Direct Costs	15.9%	20.1%	19.6%	16.8%
Opex+Work Management	3.4%	6.0%	4.7%	3.7%
<b>Total Emergency</b>	<b>19.3%</b>	<b>26.1%</b>	<b>24.4%</b>	<b>20.5%</b>
<b>Replacement:</b>				
Direct Costs	21.1%	19.6%	26.1%	26.6%
Opex+Work Management	4.6%	5.8%	6.3%	5.9%
Service Leakage	2.1%	1.8%	2.2%	2.1%
<b>Total Replacement</b>	<b>27.8%</b>	<b>27.2%</b>	<b>34.5%</b>	<b>34.6%</b>
<b>Asset Related Costs:</b>				
Regulated Depreciation	30.1%	28.6%	25.7%	27.9%
Network Rates	22.8%	18.1%	15.5%	17.0%
<b>Total Asset Related Costs</b>	<b>52.9%</b>	<b>46.7%</b>	<b>41.1%</b>	<b>44.9%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Revenue Recovery:** The actual level of charges will be adjusted to ensure that the revenue recovered is in line with the System/Customer Charge split established in DNPC05.

## 3 Solution

### 0418

Currently, apart from the relatively small fixed charges in the charging band 73.2-732MWh all customer charges are based on supply point capacity (SOQ). There are three charging bands:-

1. 0 - 73.2 MWh: For supply points with an AQ below 73.2MWh there is a fixed unit rate in terms of pence per peak day kWh per day.
2. 73.2 - 732 MWh: For supply points with an AQ between 73.2 and 732 MWh there is also a fixed, but lower, pence per peak day kWh per day unit rate, plus the fixed charge depending on frequency of meter reads.
3. >732 MWh For supply points with an AQ greater than 732 MWh the unit rate depends on the SOQ of the supply point as it is calculated using an exponential function.

This Mod is proposing a more cost reflective charging structure based on the costs reflected in the Customer Charges. The charge would consist of three parts, reflecting the three main types of costs which are recovered through the customer charges. With the first two elements, Emergency costs and Services Replacement costs, the charges are set to be as cost reflective as possible given the evidence available. For the third element, Depreciation (mainly DLCA) costs, two options were initially proposed for consideration by the Workgroup. After consideration by the DNs Option 2 was discounted (charging based on the square root of the SOQ) as no substantial evidence could be found to justify charging on this basis. Therefore Option 1 has now been chosen as the method for charging of the Depreciation Costs.

The proposed charges will also be more cost reflective than the existing charges because they will be based on individual DN costs rather than national costs and will reflect an up-to-date balance of costs involved.

**Emergency Costs:** Because there is no evidence that supply point Emergency costs vary with supply point size it is proposed that these costs be recovered by a single flat rate charge which would apply to all supply points, irrespective of size.

**Services Replacement Costs (Repex)** In most Networks there is cost evidence that Services Replacement costs are higher for non-domestic supply points than for domestic supply points, which is to be expected on the basis that non-domestic supply points will, on average, have larger services. However the available cost data is not sufficiently detailed to provide evidence that costs vary by supply point size within the categories of domestic and non-domestic. Therefore for these Networks it is proposed that there should be one flat rate for the 0-73.2 MWh charging band, which consists mainly of domestic supply points, and a slightly higher flat rate for the 73.2 – 732 MWh and >732 MWh charging bands which consist mainly of non-domestic supply points. In Southern Network the cost evidence does not justify a higher rate for the 73.2 – 732 MWh and >732 MWh charging bands and therefore a single flat rate charge across all three charging bands is proposed.

**Asset Related (DLCA) Costs:** As discussed in Section 2, the great majority of the asset related costs on services which are reflected in the customer charge can be attributed to the DLCA. The proposers of the Mod consider that it was the intention of

the Gas Act (1985) that the cost of the DLCA should be recovered from all gas customers and not just from those who benefitted from the Allowance. This part of the charge is not intended to be cost reflective because it is to recover an allowance and not an operational cost.

After consideration by the DNs this Modification has been amended to reflect the following option for charging of the asset related costs based on a single flat rate charge applied to all Supply Points irrespective of size. This would mean that the Depreciation costs would be recovered from all supply points, but with no attempt to vary the contribution by size of supply point. The option to base the single rate unit charge on the square root of the Supply Point's SOQ was considered, however no evidence to substantiate this option could be derived by the DNs jointly and was therefore discounted.

### Impacts on Charges

There would be a flat rate charge for all three elements of the charge. For Emergency and asset related costs there would be a single flat rate charge across all supply points, and for Replacement for seven of the eight Networks there would be one flat rate for the 0-73.2 MWh charging band and a higher flat rate for the other two charging bands. For Southern Network there would be the same flat rate charge across all load bands.

For the purposes of illustration only how this charge might look in the Charging Statements for Scotland, based on 2011/12 revenue recovery, is shown in the table below.

Scotland	
<b>AQ</b>	Pence per Supply Point per day
Up to 73,200 kWh pa	12.0729
73,200 to 732,000 kWh pa	13.3941
732,000 kWh pa and above	13.3941

The impact of this structure on charges is shown in the table below.

	Scotland		Southern		Wales & West		Northern	
	Impact on:		Impact on:		Impact on:		Impact on:	
Load Band	Customer Charge	Total Charges	Customer Charge	Total Charges	Customer Charge	Total Charges	Customer Charge	Total Charges
0 - 73.2	3.6%	1.5%	4.2%	1.4%	2.8%	1.0%	4.4%	1.6%
73.2 - 146.5	(45.0%)	(10.5%)	(63.3%)	(12.1%)	(9.4%)	(1.8%)	(56.5%)	(10.6%)
146.5 - 293.1	(48.8%)	(6.6%)	(66.3%)	(7.4%)	(17.7%)	(2.1%)	(60.3%)	(6.7%)
293.1 - 439.6	(53.7%)	(4.7%)	(69.9%)	(5.2%)	(26.3%)	(2.2%)	(63.9%)	(5.1%)
439.6 - 586.1	(57.1%)	(4.0%)	(72.5%)	(4.4%)	(32.7%)	(2.2%)	(66.6%)	(4.4%)
586.1 - 732.7	(60.8%)	(3.5%)	(74.7%)	(3.9%)	(38.6%)	(2.2%)	(69.4%)	(3.9%)
732.7 - 2,198	(78.4%)	(5.1%)	(87.6%)	(5.7%)	(68.7%)	(5.0%)	(85.2%)	(5.8%)
2,198 - 2,931	(87.8%)	(5.6%)	(94.1%)	(6.0%)	(81.0%)	(6.0%)	(90.9%)	(6.1%)
2,931 - 5,861	(91.5%)	(5.7%)	(94.7%)	(6.0%)	(87.3%)	(6.6%)	(93.8%)	(6.2%)

5,861 - 14,654	(95.2%)	(5.9%)	(97.3%)	(6.1%)	(92.7%)	(7.2%)	(96.6%)	(6.3%)
14,654 - 29,307	(97.4%)	(5.9%)	(98.6%)	(6.0%)	(95.8%)	(7.7%)	(98.1%)	(6.2%)
29,307 - 58,614	(98.7%)	(5.8%)	(99.0%)	(5.9%)	(97.7%)	(8.0%)	(98.9%)	(6.2%)
58,614 - 293,071	(99.3%)	(5.7%)	(99.6%)	(5.8%)	(98.7%)	(8.3%)	(99.4%)	(6.1%)
>293,071			(99.9%)	(5.5%)	(99.7%)	(9.0%)		

	East of England		London		North West		West Midlands	
	Impact on:		Impact on:		Impact on:		Impact on:	
Load Band	Customer Charge	Total Charges	Customer Charge	Total Charges	Customer Charge	Total Charges	Customer Charge	Total Charges
0 - 73.2	5.5%	1.9%	5.0%	1.9%	3.8%	1.2%	3.5%	1.1%
73.2 - 146.5	(58.9%)	(12.4%)	(61.7%)	(14.6%)	(54.3%)	(9.0%)	(40.4%)	(6.6%)
146.5 - 293.1	(62.3%)	(7.7%)	(64.6%)	(9.1%)	(57.7%)	(5.8%)	(45.6%)	(4.3%)
293.1 - 439.6	(66.0%)	(5.6%)	(68.2%)	(6.5%)	(61.9%)	(4.2%)	(52.1%)	(3.2%)
439.6 - 586.1	(68.8%)	(4.7%)	(70.5%)	(5.5%)	(64.7%)	(3.6%)	(56.2%)	(2.8%)
586.1 - 732.7	(71.3%)	(4.2%)	(72.6%)	(4.9%)	(67.8%)	(3.1%)	(59.9%)	(2.6%)
732.7 - 2,198	(86.0%)	(6.4%)	(86.3%)	(6.9%)	(84.0%)	(5.4%)	(81.6%)	(4.9%)
2,198 - 2,931	(91.2%)	(6.8%)	(91.8%)	(7.4%)	(90.7%)	(6.0%)	(88.3%)	(5.5%)
2,931 - 5,861	(93.9%)	(7.0%)	(94.2%)	(7.6%)	(93.2%)	(6.2%)	(91.5%)	(5.8%)
5,861 - 14,654	(96.6%)	(7.2%)	(96.9%)	(7.8%)	(95.9%)	(6.6%)	(94.8%)	(6.3%)
14,654 - 29,307	(98.0%)	(7.4%)	(98.2%)	(8.0%)	(97.9%)	(6.9%)	(97.1%)	(6.8%)
29,307 - 58,614	(98.9%)	(7.5%)	(99.1%)	(8.1%)	(98.8%)	(7.2%)	(98.3%)	(7.2%)
58,614 - 293,071	(99.5%)	(7.5%)	(99.7%)	(8.2%)	(99.5%)	(7.5%)	(99.1%)	(7.6%)
>293,071	(99.9%)	(7.7%)	(99.8%)	(8.2%)	(99.8%)	(7.8%)	(99.6%)	(8.2%)

In all Networks this would result in an increase in total charges for the 0-73.2MWh charging band, ranging from 1.0% in Wales & West to 1.9% in East of England and London. For the 73.2-732 MWh charging band there would be reductions across all of the eight Networks. For the largest charging band, >732 MWh, there would be significant reductions in all Networks, ranging, in terms of total charges, from a maximum of 5.7% in Scotland to a maximum of 9.0% in Wales & West.

## 0418A

**For the avoidance of doubt, this alternative proposal only seeks to change the charging methodology for the asset related costs, to a flat unit rate (pence/kWh) rather than the single flat rate (pence/supply point/day).**

Currently, apart from the relatively small fixed charges in the charging band 73.2-732MWh all customer charges are based on supply point capacity (SOQ). There are three charging bands:-

1. 0-73.2 MWh: For supply points with an AQ below 73.2MWh there is a fixed unit rate in terms of pence per peak day kWh per day.
2. 73.2 - 732 MWh: For supply points with an AQ between 73.2 and 732 MWh there is also a fixed, but lower, pence per peak day kWh per day unit rate, plus the fixed charge depending on frequency of meter reads.
3. >732 MWh For supply points with an AQ greater than 732 MWh the unit rate depends on the SOQ of the supply point as it is calculated using an exponential function.



This Mod is proposing a more cost reflective charging structure based on the costs reflected in the Customer Charges. The charge would consist of three parts, reflecting the three main types of costs which are recovered through the customer charges. With the first two elements, Emergency costs and Services Replacement costs, the charges are set to be as cost reflective as possible given the evidence available. For the third element, Depreciation (mainly DLCA) costs, two options were initially proposed for consideration by the Workgroup. After consideration by the DNs Option 2 was discounted (charging based on the square root of the SOQ) as no substantial evidence could be found to justify charging on this basis. The Mod 418 workgroup therefore decided by majority Option 1 would be used as the method for charging of the Depreciation Costs, however, this alternative modification is proposing a third option in relation to the recovery of Depreciation costs. This Option 3 is a pence/kWh approach. Option 3 was raised at the working group at three separate meetings and the DNs agreed to look at the impact.

The proposed charges will also be more cost reflective than the existing charges because they will be based on individual DN costs rather than national costs and will reflect an up-to-date balance of costs involved.

**Emergency Costs:** Because there is no evidence that supply point Emergency costs vary with supply point size it is proposed that these costs be recovered by a single flat rate charge which would apply to all supply points, irrespective of size.

**Services Replacement Costs (Repex)** In most Networks there is cost evidence that Services Replacement costs are higher for non-domestic supply points than for domestic supply points, which is to be expected on the basis that non-domestic supply points will, on average, have larger services. However the available cost data is not sufficiently detailed to provide evidence that costs vary by supply point size within the categories of domestic and non-domestic. Therefore for these Networks it is proposed that there should be one flat rate for the 0-73.2 MWh charging band, which consists mainly of domestic supply points, and a slightly higher flat rate for the 73.2 – 732 MWh and >732 MWh charging bands which consist mainly of non-domestic supply points. In Southern Network the cost evidence does not justify a higher rate for the 73.2 – 732 MWh and >732 MWh charging bands and therefore a single flat rate charge across all three charging bands is proposed.

**Asset Related (DLCA) Costs:** As discussed in Section 2, the great majority of the asset related costs on services which are reflected in the customer charge can be attributed to the DLCA. The proposers of the Mod consider that it was the intention of the Gas Act (1985) that the cost of the DLCA should be recovered from all gas customers and not just from those who benefitted from the Allowance. This part of the charge is not intended to be cost reflective because it is to recover an allowance and not an operational cost.

This Modification proposes the following option for charging of the asset related costs based on a flat unit rate charge (pence/kWh) applied to all Supply Points irrespective of size. This would mean that the Depreciation costs would be recovered from all supply points, but with no attempt to vary the charge by size of supply point.

### **Impacts on Charges**

There would be a flat rate charge for Emergency costs and Replacement costs. For Emergency costs there would be a single flat rate charge (pence/supply point/day) across all supply points, and for Replacement for seven of the eight Networks there

would be one flat rate (pence/supply point/day) for the 0-73.2 MWh charging band and a higher flat rate (pence/supply point/day) for the other two charging bands. For Southern Network there would be the same flat rate charge across all load bands (pence/supply point/day).

For Asset Related costs there would be a flat unit rate (pence/kWh) applied to all supply points.

(See Appendix 1 for an impact assessment provided by the Transporters.)

## 4 Relevant Objectives

### Impact of the modification on the **Relevant Objectives:**

Relevant Objective	Identified impact
a) save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) that, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> <li>(i) no reserve price is applied, or</li> <li>(ii) that reserve price is set at a level -               <ul style="list-style-type: none"> <li>(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and</li> <li>(II) best calculated to promote competition between gas suppliers and between gas shippers;</li> </ul> </li> </ul>	None
b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) that, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive (0418A only)
d) that the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) 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

### Objective a)

The Workgroup considers that either Modification would better facilitate the achievement of Objective a). Changing the structure of customer charges in each DN to reflect the costs of that DN rather than reflecting national costs facilitates the objective of the charging methodology resulting in charges which reflect the costs incurred by the licensee in its transportation business.

The DNs believe that the option put forward in Modification 0418 would better also better facilitate this relevant objective since their analysis of costs and their drivers has produced the proposed charging functions, with those functions being driven by the

0418

Workgroup Report

05 April 2013

Version 0.2

Page 11 of 20

© 2013 all rights reserved

data. The analysis sought to deliver cost reflectivity and the functions have been put forward to reflect their understanding of the costs they incur. While some Workgroup attendees do not believe that it has been demonstrated that the proposed functions would better reflect costs than the existing functions, the DNs do not there is any evidence to suggest the existing functions are appropriate. When establishing cost functions for the first time, based on data for each DN, the aim was to identify a cost reflective approach and the existing functions do not form a reasonable base case.

Given their concerns that the proposed functions may not be considered more cost reflective than the present charging methodology, British Gas put forward Modification 0418A to specifically address the way in which DLCA costs are reflected. The DNs acknowledged that, being a statutory allowance, there was no clear cost driver that could be used to derive a suitable charging function that reflects this cost element. Modification 0418A put forward an alternative basis that can be argued to be as cost reflective as that proposed by the DNs.

## Objective b)

The Workgroup considers that either Modification would better facilitate the achievement of Objective b), that the charging methodology properly takes account of developments in the transportation business, because it would make the structure of LDZ customer charges reflect the structure of the distribution networks, and so reflect network sales.

## Objective b)

If the intent of the Gas Act was to recover the DLCA allowance from all gas customers, then a p/kWh charge, as proposed in Modification 0418A, would provide a reasonably balanced apportionment of this cost across all customers. On the other hand, a p/supply point charge as proposed in Modification 0418 would recover approximately 98%\* of the cost from the group of customers the allowance was intended for, which seems inappropriate. By recovering the asset related costs on a pence/kWh basis, rather on a pence/supply point basis, it better preserves the intent of the DLCA and therefore avoids distorting the market. Avoiding market distortions facilitates effective competition between Shippers.

\*Source: Xoserve, August 2012.

Where there is a level of cost to be recovered from all customers in a non-cost reflective manner, as is the case for the DLCA, the current practice in the energy industry is to apply a p/kWh charge. Examples of this approach are the NTS SO Commodity charge, the TO Exit Commodity charge and Assistance for Areas with High Electricity Distribution Costs allowance (AAHEDC). On the other hand, there are no examples of a pence/customer approach to recover a level of cost in a non-cost reflective manner. Modification 0418A maintains current industry practice and hence is familiar to the industry and an approach that is understood. Adopting a novel approach rather than which is familiar and established would introduce uncertainty into the market and increase the risks faced by Shippers. Implementing Modification 0418A in preference to 0418 would avoid this detriment and so facilitate the securing of effective competition between Shippers.

The Workgroup also acknowledged that either Modification would affect only the Customer Charges themselves and have no impact on compliance with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence.

## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

None.

### Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
These are not User Pays Modifications since no User Pays service is to be created nor amended. Any system costs to implement the change will be met by the Transporters	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
NA	
Proposed charge(s) for application of Users Pays charges to Shippers	
NA	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
NA	

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>None</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>None</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• None
Development, capital and operating costs	• Implementation costs of up to £1.5m are anticipated
Recovery of costs	• None
Price regulation	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None
UNC Committees	• None
General administration	• None

Impact on Code	
Code section	Potential impact
TPDY	• Charging methodology to be modified

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

Impact on UNC Related Documents and Other Referenced Documents	
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• None
Uniform Network Code Standards of Service (Various)	• None

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

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

While no implementation timescale is proposed, as these proposals involve changes to the LDZ transportation charges and the charge change date specified in the DNs' Licences is 01 April, the DNs suggested that the target implementation date should be 01 April 2014. Some Workgroup attendees did not believe this would give a sufficient notice period and suggested that April 2015 would be more appropriate.



## 7 The Case for Change

None in addition to that identified above.

## 8 Legal Text

### Text

Due to the size of the files, the legal text for each modification, prepared by Scotia Gas Networks, has been published as separate documents alongside this Workgroup Report. No issues were raised by the Workgroup regarding the text.

## 9 Recommendation

The Workgroup invites the Panel to:

- AGREE that these modifications should be submitted for consultation.

## 10 Appendix 1

The DNs have provided an impact assessment in the spreadsheet published alongside this report.