

## Stage 02: Workgroup Report

# 0428 and 0428A: Single Meter Supply Points

At what stage is this document in the process?



Since the inception of competition in gas supply, gas transportation charges have been calculated by grouping meter points into supply points, using rules, which reflect the commercial arrangements downstream of the ECV. This modification seeks to revise that commercial construct and establish a rule that would only permit one meter point per supply point, irrespective of any downstream relationship.



The Workgroup recommends that this modification should proceed to Consultation.



Medium Impact:  
Shippers / Customers and Transporters

0428

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## About this document:

This report will be presented by the Workgroup to the panel on 21 March 2013.

The Panel will consider whether the modifications are sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of these modifications.


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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

## Why Change?

Modification 0428 has been raised by National Grid Distribution to construct and establish a rule that would only permit one meter point per supply point.

There are a number of reasons why there is a need to change the current arrangements.

The current arrangements:

- Are not cost reflective;
- Are cumbersome to administer; and,
- Are complex to systematise.

Modification 0428A has been raised by Gazprom as the introduction of 0428 would lead to increased charges for many customers. Gazprom believe that it is unreasonable to impose a cost burden on industry and commerce unless the pricing principles are fully reviewed as a pre-requisite. Many customers with a multi-meter Supply Point configuration choose such a connection arrangement after discussions with the relevant transporter in the understanding that they would not be penalised for such a configuration. Breaking up such configurations will either impose significant additional transportation costs on such customers, or require reconfiguration of the Supply Point to connect to the network through a single meter, also resulting in significant costs.

## Solution

### 0428

From a date to be determined to coincide with the go-live date for Nexus, "Nexus go-live date", a Supply Point shall only contain one Supply Meter Point.

As a precursor to the implementation of this rule, with effect from 1st April 2014, a Supply Meter Point would neither be permitted to be added to an existing multi-metered Supply Point, nor combined with another single supply Meter Point, to create a new multi-meter Supply Point.

It is believed that the modification furthers four of the relevant objectives, as identified in Section 4, although National Grid believe the principal benefit is that implementation would improve the cost reflectivity of transportation charges, without resorting to a change of charging methodology.

### 0428A

It is proposed that no further multi-metered Supply Points can be created, but any existing multi-metered configurations can remain so unless the customer agrees to the change. In effect this retains the status quo for these customers. The only change will be to allow such sites to be reconfigured to remove defunct meter points. In response to concerns raised by National Grid NTS, sites directly connected to the transmission network will also be excluded from the move to a single meter Supply Point concept.

## Relevant Objectives

### 0428

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Some Workgroup participants consider this modification furthers Relevant Objectives (a), (c), (d) and (f) as it will lead to more transparency and improved cost targeting for Transportation charges. However, other participants consider it will have a disproportionate impact on consumers who have made investment decisions based on the rules in place at the time.

#### **0428A**

The alternate Modification will impact positively on the relevant objectives a); b); c) and d). The proposer believed the only costs would be legal drafting as the solution retains existing processes. However some Workgroup members believed there would be a cost associated with the modification. Modification 0428 would take out the current functionality for the Nexus build thus in theory save the industry money, maintaining the functionality would cost the industry money when considering the on going operational costs, despite this costs already being part of an industry approved process.

### **Implementation**

0428 implementation should be on 1<sup>st</sup> April 2014, in the knowledge that prior to the new system implementation, all existing multi meter supply points would have to be disaggregated and reconfirmed as Single Supply Meter Points prior to the Nexus go-live date.

0428A implementation to be aligned with Project Nexus.

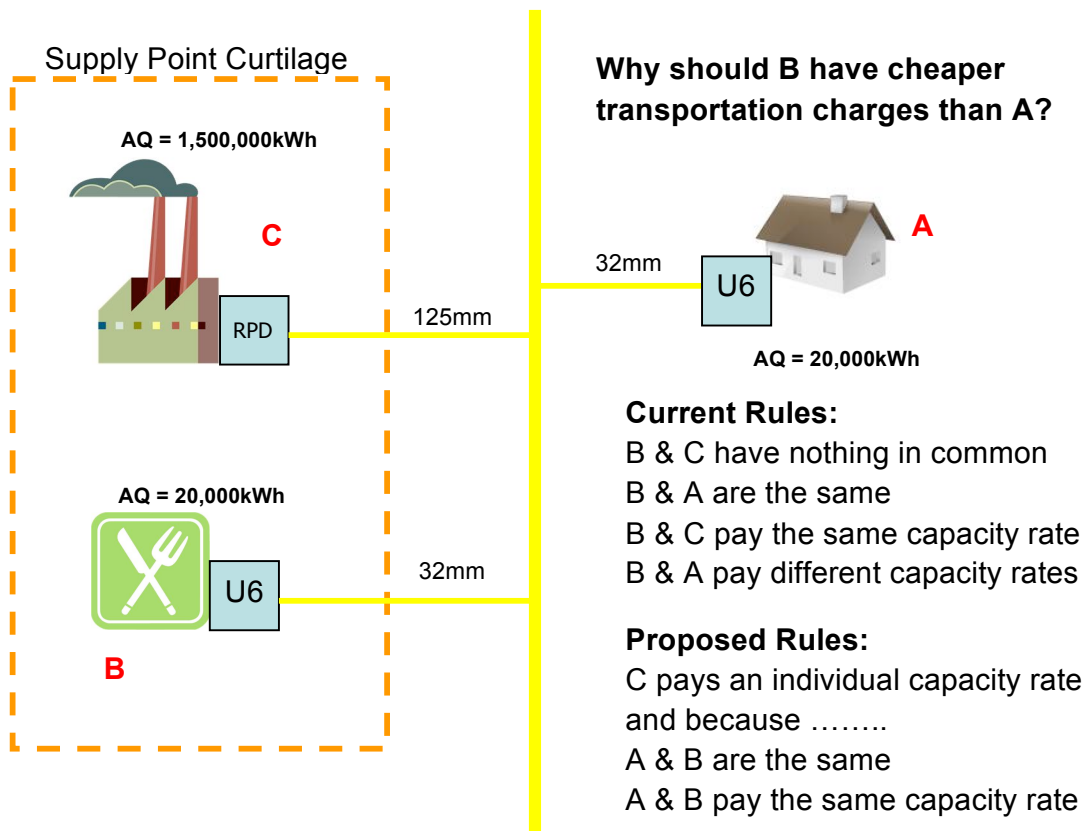
## 2 Why Change?

### 0428

There are number of reasons why National Grid believe that the time is right to remove the practice of aggregating Meter Points into Supply Points for the purposes of calculating transportation charges.

### Reasons

1. Aggregating Meter Points into Supply Points does not result in a cost reflective capacity rates for the meters at the aggregated Supply Points. The diagram example below illustrates the point.



2. The aggregation rules, as laid down in UNC Section G1.4, are cumbersome to administer and are not easy to apply without an intimate knowledge of the commercial arrangements downstream of the ECV. A scan of the rules used to explain the intricacies of G1.4 is attached as Appendix 1. Removal of multi-metered Supply Points ("mmSP") concept would remove the need to apply these complex rules.
3. At some point in the next few years the Sites and Meters system will be re-written against a new base-line of requirements. If mmSPs are removed from the base-line requirements, this will considerably reduce the complexity which will have to be rewritten into the new system.
4. The removal of mmSPs will improve the granularity of SHQ and SOQ when booked as part of a DM Supply Point component.

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## 0428A

### What is wrong with 0428?

The Workgroup understand the arguments made within 0428 and acknowledge the desire to design the Nexus solution to be as streamlined and efficient as possible. However Gazprom do not believe that the industry should be forced to re-structure root and branch unless a) there is a clear positive cost benefit case and b) that steps are taken to ensure that certain market sectors are not adversely affected.

Were the gas industry to commence in 2015 then it may well be easy to make the business case for the single meter Supply Point philosophy. This is of course not the case and it is important to examine the historical context to see how the industry has evolved and why Gazprom now have a mixture of older sites with many meters; and newer, often large and complex sites with single meters.

Therefore the point of this alternate is to preserve the rights of customers who operate premises with existing gas supply infrastructure, the design of which for many was dictated not by their needs but by the predecessor of National Grid.

Rather than attempt, at this stage, to set-out a comprehensive modification that advocates both single meter Supply Points and gives protections to existing customers Gazprom are using this alternate to present the case for the latter. 0428 comprehensively makes the case for the former and so Gazprom hope to address the issues described in order to seek the development of a robust Nexus solution. Therefore Gazprom have attempted to address the concerns by giving reference to 0428 but have not including its core elements for the sake of brevity.

### Background – why were multi-meter configurations installed?

Over the years mains and services<sup>1</sup> have been replaced, both as part of on-going maintenance or as part of a mains renewal policy, but the original configuration i.e. multi-metered has been retained. There have been some exceptions to this where it proved beneficial to both the distributor and customer.

Many of these original installations date back not just to pre market liberalisation but to before the natural gas era. The former British Gas Corporation (owner of the GB transportation network and monopoly gas supplier) sought to introduce gas to displace coal and oil in industrial and commercial premises. Often this involved incremental development, a single production process would be converted requiring a gas supply for that process only. Gradually the site would acquire more and more separate supplies. With the advent of natural gas demand grew dramatically and the philosophy of 'adding' separate supplies continued.

It must be understood that the decision to take this course was not driven by the customer but was at the behest of British Gas Corporation who actively marketed gas in GB. The cheapest and easiest way of getting gas to site was chosen and this was usually by connecting the 'point of use' to the nearest gas main in the street.

There were other reasons for this approach, often the adjacent gas main was of insufficient capacity to provide the full site gas load. The options were to connect separate supplies to other mains or carry out extensive reinforcement adding to the distributor's costs. At that time it was the policy of British Gas Corporation to offset the cost of most connections against projected gas usage and so the infrastructure costs were a direct cost to them. Whilst this clearly delivered benefits to customers it was often a necessary and integral ingredient of their own business case when embarking on major capital investment programmes.

This approach only changed when competition in gas supply became an inevitable reality. Guaranteed revenue from monopoly gas supply ceased and what became Transco moved their focus to transportation revenue and control of costs including

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<sup>1</sup> See Gas Distribution RIIIO-GD1 Price Control Review Business Plan Submissions for a description of 'mains and services'

maintenance. A simple single metered supply for new gas loads became the favoured option. The utilisation of higher gas pressures using plastic pipe that didn't leak added to the attractiveness.

During mains replacement activity any opportunity to rationalise existing installations was taken, but the solution did not require the customer to bear the cost. Where changes to the customer's own internal pipework were required these were fully paid for by the distributor. Indeed Gazprom believe this is still the policy of the GDNs, not only for Industrial & Commercial premises but for domestic supplies as part of on-going mains renewal.

## Transportation charging principles

Transportation charges are based upon the gas usage at a premises. As long as the criteria for 'single premises' is met any number of meters can be included in a single Supply Point. It has long been established that premises or 'site' equates to Supply Point.

The transportation charge structure is designed such that the utilisation of capacity of the total system incorporated to deliver gas to a location is the basis for charging. This includes utilisation of the various pressure tiers, from high pressure national and local transmission through intermediate and medium pressure and finally to low pressure. For a given site with one or more meters the utilisation will be the same until the very last element, the service pipe. 0428 argues that it costs more to upkeep more numbers of services at single premises. Although to a degree Gazprom accept this, they believe it is a marginal if insignificant difference given the bulk of charges relate to pressure tier utilisation as described above.

The aspect of charging that concerns us most is the utilisation of capacity at a premises versus utilisation via a number of single metered Supply Points. Industrial & Commercial premises use gas for a variety of applications. For multi meters one process may be supplied by one meter and a separate process by another. It is very unlikely or even inconceivable that each of these processes will take their peak gas demand at precisely the same time or on the same day. There is always some degree of diversity. The current charging principles accept this by charging at Supply Point or premises/site level.

## Network Design

Aside from transportation charge principles, the network is designed to be economic and efficient. By not accounting for the natural diversity described above it is likely that networks will become oversized. This may increase the asset value of the transporter but will do nothing for the customer.

### Example

Take a simple ceramic pottery production process.

Meter No. 1 capacity 10 scmh used for ceramic first firing (producing the unglazed pot)

Meter No. 2 capacity 10 scmh used for glazed firing (producing the finished pot)

First firing happens in the morning followed by finishing in the afternoon.

Total daily required capacity:

- a) meters identified as individual Supply Points = 20 scmh
- b) meters treated in aggregate = 10 scmh.

## Other considerations – supply transfers

Existing Supply Points, regardless of numbers of meters, are identified by a single transporter reference called a confirmation reference. When a shipper carries out a supply transfer they are required to present, or nominate, just one Meter Point Reference Number (MPRN) contained within the Supply Point, this can be any of the MPRN's contained within the aggregation. When they complete the process all meter points contained within the aggregation automatically transfer, thus a simple process

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ensures that ALL meters transfer. Not only shipper/suppliers but also customers have become accustomed to this simple Supply Point administration process and have their own administration systems/processes designed around it. If 0428 is implemented without protections for existing customers then this will require a complete re-design of shipper/supplier and customer systems and processes.

It has taken the industry some years to overcome problems of customer transfers, particularly for multi-metered, multi-site customers and Gazprom are concerned that 0428 without the protections will have a severe detrimental effect. Some meters will transfer and some not. Some large sites can comprise 50 or more meters.

Gazprom believe that 0428 on its own will roll back competition in the Industrial & Commercial market sector as many customers will see the administration burden of re-tendering and subsequent supply transfer problems as outweighing any market price benefits.

## 3 Solution

### 0428 National Grid

The simple answer is from a date, to be determined; all supply points should only comprise one meter point.

We appreciate there are a number of transition issues that need to be addressed, both from a Gas Supply perspective (Supplier) and from a Supply Point Register perspective (Transporter) and, hence, we propose a transition phase should commence at the shipper's discretion, (prior to Nexus go-live), and would be largely shipper driven in terms of managing the disaggregation of the affected Supply Points. Notwithstanding this aspiration, it is proposed that where certain actions are not undertaken by the shipper, then the transporter would have rights to take action on a shippers behalf.

#### The Business Rules

With effect from 1st April 2014, a Supply Meter Point would neither be permitted to be added to an existing multi-metered Supply Point, nor combined with another single Supply Meter Point, to create a new multi-meter Supply point. This is the point that the Single Premise Requirement can be removed from the Code

Exception – Twin-stream metering that has two MPRNs will be treated as a single metered supply point

Twin-stream metering means: Two identical meters installed in parallel, fed from a single service, with the flow through the meters combining immediately downstream of the meter outlets

3 months prior to the Nexus go-live date, all multi-metered supply points shall have been disaggregated, and reconfirmed as single meter Supply Points by registered user or have a confirmation in place to take effect prior to the Nexus go-live date.

Any multi-metered supply points not disaggregated by the shipper 3 months prior to Nexus go-live, or having an effective confirmation prior to the Nexus go-live date, would be disaggregated by the transporter's agent using the Transitional Rules detailed below.

#### Transition Rules:-

Where, 3 months prior to the go-live date for Nexus, the shipper has not taken action split the Supply Point, the transporter's agent will take such actions as necessary, based on the rules below, to effect the disaggregation.

Any confirmations scheduled to take effect after the date must comply with this rule, otherwise the confirmation will be rejected.

Transporters' agent disaggregation guidelines:

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An NDM supply point: Each meter point will be confirmed using the prevailing MPAQ Where sufficient meter read history exists; the Meter Point will be allocated into the corresponding WAR banded EUC;

An NDM meter point in a DM supply point: As above;

An DM meter point in a DM supply point: The meter point will be confirmed with an SOQ equal to the peak daily consumption for Gas Year 1 Oct 2014– 31 March 2015, (currently expected to be the winter period prior to effective implementation).

Where it is necessary to split SHQs (for example where a meter points in a DM supply point will remain DM but other meters will not), these will given values to reflect the max hour over the effective winter period for this implementation.

#### 0428 User Pays

##### Classification of the modification as User Pays, or not, and the justification for such classification

This modification should only be user pays to the extent that transporters are required to carry out activities that should have been carried out by the shipper.

##### Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

100% targeted on shippers that do not undertake the appropriate activities. We don't want to levy charges but if our agent has to undertake activities that should be carried out by the shipper, we propose that we should have the capability and right to charge.

##### Proposed charge(s) for application of Users Pays charges to Shippers

Charge per confirmation (action) undertaken on behalf of the shipper

##### Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve

As yet unknown (circa £xx.xx)

#### 0428A Gazprom

We propose that no further multi-metered Supply Points can be created, but any existing multi-metered configurations can remain so unless the customer agrees to the change. In effect this retains the status quo for these customers. Going forward such sites will be allowed to be reconfigured to remove defunct meter points, but for the avoidance of doubt no new meter points could be added.

In response to concerns raised by National Grid NTS, sites directly connected to the transmission network will also be excluded from the move to a single meter Supply Point concept.

#### 0428A User Pays

##### Classification of the modification as User Pays, or not, and the justification for such classification.

This modification does not result in any changes to current requirements for multi-metered Supply Points, and so do not anticipate any costs as this maintains current processes. Preventing future multi-metered Supply Points will require Xoserve to undertake changes, but we believe that if this is undertaken as part of Project Nexus no additional costs beyond that already incurred. This modification is therefore not User Pays
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.
None
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
N/A

## 4 Relevant Objectives

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

Relevant Objective	Identified impact	
	0428	0428A
a) Efficient and economic operation of the pipe-line system.	Positive	Positive
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	Positive
c) Efficient discharge of the licensee's obligations.	Impacted	Positive
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.	Impacted	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	None
f) Promotion of efficiency in the implementation and administration of the Code	None	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	None

### Relevant objective a)

0428 - Some participants consider that the more granular nature of the booked SOQs and SHQ will provide more data for planning the network. [requires more information on how this will help System Operation manage the system?]

0428A - By retaining aggregate consumption data at premises level the optimal required capacity will be preserved.

### Relevant objective b)

Total gas demand at site level throughout the day will provide data to enable effective physical system balance between DNs and NTS and enable proper management including the identifying of potential emergency scenarios.

### Relevant objective c)

0428 - Some participants consider that the by allowing costs to be levied on a like for like basis, without changing any pricing methodology, it will enable the licensee to

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provide more cost reflective transportation charges.

0428A - By ensuring cost reflective charging.

### Relevant objective d)

0428 - Some participants consider more cost reflective charging is a positive step in promoting competition between shippers and implementation would realise improved cost-targeting and therefore promote competition

Some participants consider this modification is likely to have a disproportionate impact on consumers who have made investment decisions based on the rules in place at the time and would add additional cost to the industry for very little benefit. They consider the solution should allow existing configurations to remain and restrict the addition of new configurations in a similar way to Sub deduct arrangements.

0428A - Cost reflective charging will prevent cross subsidy from one market sector to the other. Customers who have made decisions regarding their gas supply in good faith will not be penalised by changes to the charging methodology.

## 5 Impacts

### Consideration of Wider Industry Impacts

From the inception of gas transportation being discrete from supply, gas has been sold on the basis of gas to a "premises", so therefore it is unreasonable to imagine that there will not be an impact. However, the concept of supply point is out-dated, as the transportation business conveys gas to an ECV without considering the use to which that gas will be put, and a Transporter's charges, and business, should reflect that fact. Transporters are not restricting gas suppliers aggregating meter points up to and beyond the old curtilage rules in supply arrangements, but Transporters will not be reflecting any form of aggregation in DN transportation charges rates. Given that, although the rule is simple, the concept removes a long established way of working and Transporters are mindful that it will take some time to eradicate the supply point concept, both in practice and in the minds of customers.

## Impacts

It is proposed that the transition is Shipper-driven with sufficient time for Shippers to carry out the requisite SPA activities. It is not intended that any User Pays charges should be levied but an ACS service line may be proposed to ensure that the full cost of non-compliance can be assessed and Shippers made aware of possible changes.

Also, while not a principal objective, some participants were mindful of that a new generation of UK-Link is planned and any simplification of the base-lined Supply Point Administration arrangements would be beneficial to the implementation of that new system.

National Grid NTS consider NTS connected meter points should be excluded from the scope of the modification.

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact – minor
UK Link	<ul style="list-style-type: none"> <li>Additional file validation functionality may be required to facilitate the introduction of the modification</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>Site visits to check supply point configurations would no longer be required</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>Transporters may consider introducing a cost reflective charge for confirmations where they are required to take action where the shipper has not carried out the mandated SPA activity.</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>Users would be required to reconfirm meter points within an aggregated Supply Point as single Supply Points</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>By stripping-out the premise definition rules, site visits and administration of the rules would not be required.</li> </ul>

Impact on Transporters	
Development, capital and operating costs	<ul style="list-style-type: none"> <li>Some minor changes to UK-Link may be required.</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>Transporters will not seek to recover the development costs of implementation.</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>None</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>None</li> </ul>
General administration	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code	
Code section	Potential impact
	<ul style="list-style-type: none"> <li>TPD G1.4 &amp; G2.3</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
UK Link Manual (TPD U1.4)	<ul style="list-style-type: none"> <li>Changes to supply point validation rules</li> </ul>

Other Impacts	
Item impacted	Potential impact
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> <li>Consumers benefiting from meter point aggregations will have their transportation rates based on ssMP rule.</li> <li>Some consumers may face increased Transportation charges due to the proposed changes to the aggregations rules.</li> </ul>

## 6 Implementation

0428

Initially, the proposer's aspiration was that the modification should be implemented on or before 1<sup>st</sup> April 2013, with the full effect of implementation applied from 1<sup>st</sup> April 2014.

However, following discussion in the workgroup, the consensual view appears to be that the modification, if implemented, should take effect along side the modifications associated with Project Nexus. It is the proposer's view that implementation could be linked to the implementation of the new system, but as a precursor to the removal of multi-meter supply from the code, the population should be frozen with effect from 1<sup>st</sup> April 2014, with no meter points being combined or added to existing configurations from that date.

*[The proposer appreciates this is not the approved format for an implementation date, but given the variables involved and the linking of the implementation of this modification to events that themselves do not have implementation dates make determining the exact date difficult at this stage. The proposer suggests that the Workgroup considers how to express this unusual implementation date in the report, although it will be the same issue for all Nexus dependant modifications.]*

0428A

No implementation timescales are proposed. However, it would be desirable for implementation to be aligned with Project Nexus.

## 7 Legal Text

### 0428 Text

Text has been published alongside the Workgroup Report prepared by National Grid Distribution, and no issues were raised by the Workgroup regarding its content.

### 0428A Text

#### **UNC TPD Section G 1.1; 1.3; 1.4; 1.5**

*On the date to be determined to coincide with the go-live date for Nexus, "Nexus go-live date", a Supply Point containing more than one Supply Meter Point shall continue to contain the same number of Supply Meter Points beyond. [the date to be determined to coincide with the go-live date for Nexus, "Nexus go-live date",]*

## 8 Recommendation

The Workgroup invites the Panel to:

- AGREE that the Modifications should be submitted for consultation.