

Stage 02: Workgroup Report

0428 and 0428A: Single Meter Supply Points

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

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. Modification 0428 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. However, Modification 0428A applies these amended commercial arrangements to new or amended supply points only.



The Workgroup recommends that these modifications should proceed to consultation.



Medium Impact:
Shippers / Customers and Transporters

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About this document:

This report will be presented by the Workgroup to the panel on 16 May 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.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

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

Why Change?

Modification 0428 seeks 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 seeks to apply the same rules as Modification 0428, however these rules would only apply to new or amended aggregated supply points, as the removal of existing aggregated supply points may lead to increased charges for many customers currently benefiting from these configurations.

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.

0428A

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. The only change will be to allow such sites to be reconfigured to remove defunct meter points.

Relevant Objectives

0428

Some Workgroup participants consider this modification furthers Relevant Objectives (c) and (d) as it will lead to more transparency and improved cost targeting for Transportation charges and benefit competition.

0428A

Some Workgroup participants consider this modification will impact positively on the relevant objectives c) and d) as 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 basis of transportation charges and capacity.

Implementation

No implementation timescales are proposed for either modification as they may be indirectly impacted by the Nexus go-live date. It would be desirable if Modification

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0428 could be implemented by 01 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. For Modification 0428A, it would be desirable for implementation to be aligned with the Nexus go-live date.

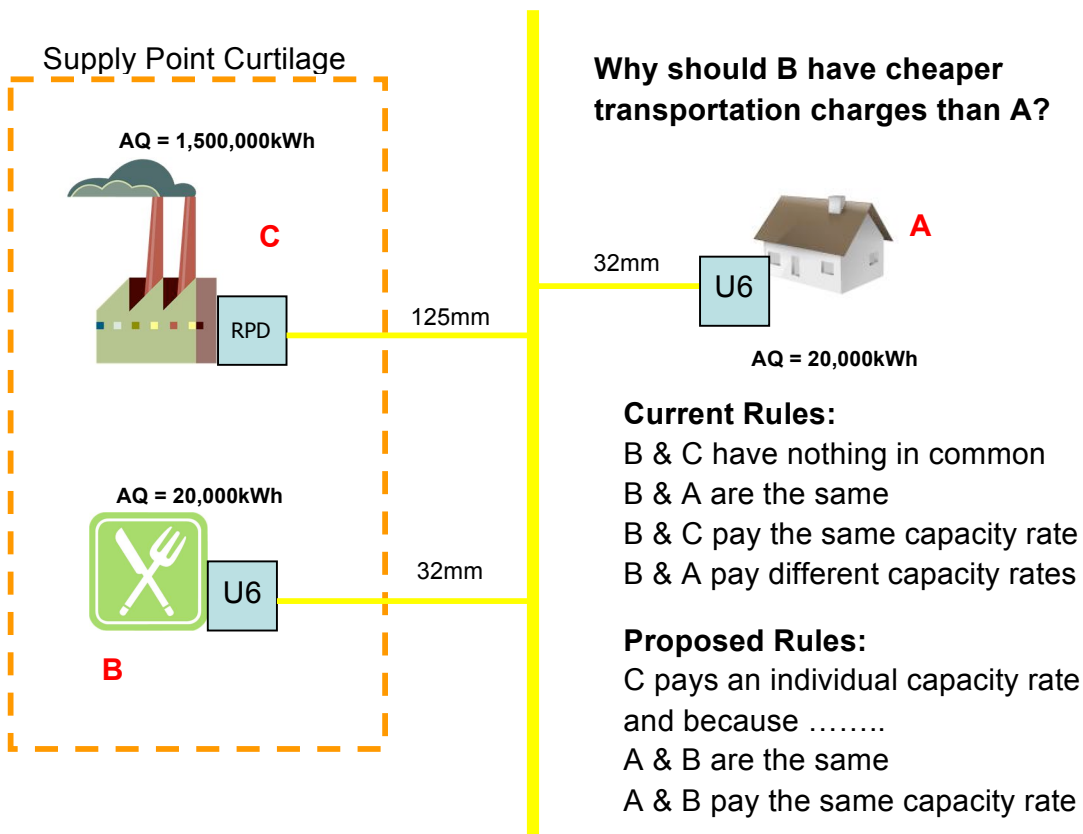
2 Why Change?

Modification 0428

Proposes 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.

Modification 0428A

Proposes to apply the same rules set out in Modification 0428. However, these rules would apply to new or amended supply points only. The aim 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 connection rules and policies in place at the time. Existing aggregated supply points would be able to retain their current status.

Some Workgroup participants understand the arguments made within Modification 0428 and acknowledge the desire to design the Nexus solution for the replacement of UK Link systems to be as streamlined and efficient as possible. However, they feel the industry should not 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.

Some Workgroup participants consider that 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 there are a mixture of older sites with many meters; and newer, often large and complex sites with single meters.

Background – why were multi-meter configurations installed?

Over the years mains and services 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 may not driven by the customer but have been 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 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.

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. Some Workgroup participants support the view in Modification 0428, that it costs more to upkeep more numbers of services at single premises. However, others support the view of Modification 0428A, that it is a marginal difference given the bulk of charges relate to pressure tier utilisation.

Some participants are concerned that the utilisation of capacity at premises versus utilisation via a number of single metered Supply Points proposed in Modification 0428. They argue that 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 that each of these processes will take their peak gas demand at precisely the same time or on the same day. The current charging principles accept this by charging at Supply Point or premises/site level.

Network Design

The network is designed to be economic and efficient. However, some participants consider that by not accounting for the natural diversity, it is possible that networks may become oversized should Modification 0428 be introduced.

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 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. Some participants consider that should Modification 0428 be implemented, this may require a complete re-design of shipper/supplier and customer systems and processes.

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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:

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.

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.	None	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	None
c) Efficient discharge of the licensee's obligations.	Impacted	Impacted
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	Impacted
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 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 provide more cost reflective transportation charges.

0428A - 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 provide more cost reflective transportation charges, while protecting those who have made investment decisions based on the rules and policies in place at the time.

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.

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0428A – Some participants consider 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 basis of transportation charges and capacity. 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.

5 Impacts

Consideration of Wider Industry Impacts

Some Workgroup participants agree with Modification 0428, that from the inception of gas transportation being discrete from supply, gas has been sold on the basis of gas to “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 Emergency Control Valve 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.

However, some participants were concerned that this assessment of wider industry impacts fails to recognise the disproportionate impact on consumers, who currently enjoy the benefits of aggregated supply points and may face additional infrastructure charges or transportation changes, due to decisions they made based on Transporters connection policies in the past.

Impacts

For Modification 0428, 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. Some participants consider, that while not a principal objective, 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.

Impact on Transporters’ Systems and Process	
Transporters’ System/Process	Potential impact – minor
UK Link	<ul style="list-style-type: none"> 0428 & 0428A - Additional file validation functionality may be require to facilitate the introduction of the modification

Operational Processes	<ul style="list-style-type: none"> 0428 & 0428A - Site visits to check supply point configurations would no longer be required
User Pays implications	<ul style="list-style-type: none"> 0428 - 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.

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> 0428 - Users would be required to reconfirm meter points within an aggregated Supply Point as single Supply Points

Impact on Transporters	
Area of Transporters' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> 0428 & 0428A - By stripping-out the premise definition rules, site visits and administration of the rules would not be required for new sites.
Development, capital and operating costs	<ul style="list-style-type: none"> 0428 - Some minor changes to UK-Link may be required. Some consider 0428 would make the Project Nexus solution easier to develop and implement
Recovery of costs	<ul style="list-style-type: none"> 0428 - Transporters will not seek to recover the development costs of implementation.

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"> • 0428 - Consumers benefiting from meter point aggregations will have their transportation rates based on ssMP rule. • 0428 - Some consumers may face increased administration costs, as they will have to manage meter points on an individual basis. • 0428 - Some consider that there is a potential meter stranding risk for other parties such as MAMs should consumers rationalise their infrastructure
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6 Implementation

No implementation timescales are proposed for either modification as they may be indirectly impacted by the Nexus go-live date. It would be desirable if Modification 0428 could be implemented by 01 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. For Modification 0428A, it would be desirable for implementation to be aligned with the Nexus go-live date.

7 Legal Text

Text for both modifications has been published alongside the Workgroup Report prepared by National Grid Distribution.

8 Recommendation

The Workgroup invites the Panel to:

- AGREE that these modifications should be issued to consultation.

The Workgroup was unable to reach a view on the potential for undue discrimination for either modification, as they consider it is likely that the information required would be commercially sensitive. They would recommend parties provide the information directly to Ofgem if they consider it would inform their view on these modifications.