

Stage 01: Proposal

0367A:

Interruptible to Firm – Supply Point Transition

What stage is this document in the process?

- 01 Proposal
- 02 Work Group Report
- 03 Draft Modification Report
- 04 Final Modification Report

The Proposal sets out a series of Supply Point Administration (SPA) steps that Users will be required to carry out to ensure all Interruptible Supply Points are recorded on the Supply Point Register as 'Firm' with effect from 1st October 2011. The Proposal also permits Transporters to take certain actions where those steps are not carried out by the User.



The Proposer recommends That proposal 0367A is submitted to Workgroup 0367 for assessment



High Impact:
None



Medium Impact:
None



Low Impact:
SPA transactions for c.1,150 interruptible supply points

0367A

Modification

03 March 2011

Version 1.0

Page 1 of 16

© 2011 all rights reserved

Contents

2	Why Change?	
3	Solution	
4	Relevant Objectives	
5	Impacts and Costs	
6	Implementation	
7	The Case for Change	15
8	Recommendation	

About this document:

This document is an alternative proposal, which will be presented by the Proposer to the Panel on 17 March 2011. The Panel will consider the Proposer's recommendation, and agree whether this proposal should be referred to Workgroup 0367 for assessment alongside the original modification.



Any questions?

5 Contact:
Joint Office

6  enquiries@gasqvernance.co.uk
9

10  **0121 623 2115**
14

Proposer:
Steve Mulinganie
16 **Regulatory Manager**
Gazprom Marketing
& Trading Retail
Limited

 steve.mulinganie@gazprom-mt.com

 **+44 07590245256**

Transporter:



xoserve:
Alison Jennings

 alison.j.jenning@xoserve.com

 **0121 623 2569**

0367A

Modification

03 March 2011

Version 1.0

Page 2 of 16

© 2011 all rights reserved

1 Summary

Is this a Self Governance Modification

It is not proposed that this Proposal is treated as a Self-Governance Modification Proposal since it may have a material impact on some customers.

Why Change?

Proposal 0367 was raised to facilitate a known forthcoming event and in order to manage that event it proposed that:

- Certain SPA processes are temporarily suspended, and;
- Users will be required carry out certain SPA transactions to a specified timescale, and;
- Where a User does not undertake the required steps, in accordance with the required timescale, Transporters will take the necessary steps on the User's behalf.

This Alternative Proposal has been raised because customers will be exposed to ratchets without an appropriate period to verify peak load requirements and make appropriate amendments without being subject to penal charges. This approach is also consistent with the approach taken when introducing the new DME product (Modification 0224) which allowed an appropriate period to verify peak load before becoming subject to the ratchet charges.

Solution

Modification 0367 proposed that for a period of time between 8th September & 19th October, certain SPA processes for the affected Supply Points would be suspended while the affected Supply Points are systematically converted from Interruptible status to Firm status. Users are expected to take the lead in this process, although where a User has not taken the appropriate action, this Proposal establishes the option for the Transporter to take action and make the Supply Point Reconfirmation on the Users behalf.

In addition to the requirements of Modification 0367, this alternative modification proposes that ratchet charges will not be levied for a Site transferring from Interruptible to Firm meter point status until the meter point's initial 12 month anniversary as a Firm Daily Metered Meter Point.

0367A

Modification

03 March 2011

Version 1.0

Page 3 of 16

© 2011 all rights reserved

Impacts & Costs

It is anticipated that costs will be incurred by the Transporters' agent in both developing and testing the functionality to register Supply Points on a User's behalf. It is also anticipated that cost would be incurred where the default Supply Point Confirmation route is used.

However, given that this functionality is required to implement interruption reform, it is proposed that no costs are recharged to Users.

For the avoidance of doubt: This is not a "User Pays" Proposal.

Implementation

Although this Proposal does not restrict activities until September 2011, it is proposed that the modification is implemented as soon as possible to provide surety to industry participants as to how the transition from Interruptible to Firm for the purposes of interruption reform will be managed.

The Case for Change

As stated in Proposal 0367, implementation would not create a permanent change to the UNC; the Proposal simply seeks to place a limited number of obligations on Users to carry out certain SPA activities for the Interruptible Supply Points in their portfolio at the requisite time. The case for implementation is that this is an efficient way of amending the Supply Point Register; it is not a case for permanent change.

Protection from ratchet charges for one year is proposed in the interests of allowing consumers forced to change from Interruptible to Firm status time to adjust to the new regime.

Recommendations

The Proposer invites the Panel to:

- DETERMINE that Workgroup 0367 should assess Alternative Modification 0367A alongside the original, with the Workgroup Report covering both modifications.



"Mod 90" or "interruption reform"

"Mod 90" introduced new arrangements that removed the "on-demand" interruptible service from the UNC. With effect from 1 Oct 2011, where a DNO has a requirement for interruption, this will be sourced through an auction process

2 Why Change?

Modification 0367 was raised to ensure that the status of the affected Supply Points recorded on the Supply Point Register aligns with both their contractual and operational statuses, with effect from 1st October 2011.

As part of Mod 90, it was envisaged that these affected Supply Points would need to transition to firm; the following rules can be found in Transition Document (Part IIC).

Existing transition rules:

4.1.1 for the purposes of paragraphs 4, 5, 6 and 7 of this Part IIC:

(a) the "**interruption transition date**" is 1 October 2011;

4.2.1 with effect from the interruption transition date:

(a) a Supply Point which on the Day preceding the interruption transition date was Interruptible in accordance with the rules set out in paragraph 5 shall cease to be Interruptible

This Modification Proposal has been raised to give effect to and facilitate the envisaged transition, while also providing a soft landing. This change is event related and the rules introduced will be transitional in nature; implementation will have no enduring effect on the operation of the Uniform Network Code.

This alternative proposal is identical to the original proposal except that it provides a soft landing for sites being mandated to convert from Interruptible to Firm status. For sites being mandated to transition from Interruptible to Firm it avoids the risk of exposure to ratchets for the initial 12 month period which will allow Customers an appropriate period to verify peak load requirements without being subject to penal charges.

3 Solution

It is proposed that for a period of time between 8th September & 19th October, certain SPA processes for the affected Supply Points would be suspended while the affected Supply Points are systematically converted from Interruptible status to Firm status. It is our preference that Users take the lead in this process, although where a User has not taken the appropriate action, this Proposal establishes the option for the Transporter to take action and make the Supply Point Reconfirmation on the Users behalf.

All dates are specific to calendar year 2011

Re-designation as Firm

As currently stated in the UNC Transition Document, with effect from 1st October, on-demand Interruptible Supply Points connected to an LDZ will not be permitted. For the avoidance of doubt, the existing rules pertaining to a User's right to change the status of a Supply Point on the Eligible Status Change Date, shall be dis-applied

With effect from 1st October all such Interruptible Supply Points will be treated as Firm and charged at Firm transportation rates for all Transportation Charges, (although Transporters will have the ability to contract for interruption with shippers at Firm Supply Points on bilateral terms).

In order to facilitate the re-designation of the affected Supply Points, for each of its Interruptible Supply Points, the User shall nominate and reconfirm the Supply Point as Firm, (DM or NDM as permitted under the Code).

Where the User fails to make the necessary Supply Point Confirmation within the stipulated timeframe, the Transporter will take steps to reconfirm the Supply Point on the User's behalf.

Users and Transporters acknowledge that for a period commencing 8th September and ending 19th October inclusive, for the affected Supply Points, it will be necessary to restrict Supply Point Registration Dates in order to ensure the smooth conversion from of the entire Interruptible Supply Point population to Firm. (For information, the affected Supply Points number approximately 1,150).

Shipper Driven Process

No later than end of 7th September, where in the opinion of the User it reasonably expects that it will be the User at the supply point on 1st October, it shall nominate and reconfirm each Interruptible Supply Point as Firm with a Proposed Supply Point Registration Date of 1 October.

0367A

Modification

03 March 2011

Version 1.0

Page 6 of 16

© 2011 all rights reserved

With the exception of 1st October, a reconfirmation for an affected Supply Point requested to take effect on another date during the period 8th September to 19th October will be rejected.

Transporter Driven ("Back-stop") Process

Where there is no Supply Point Confirmation for the relevant Supply Point in the Supply Point Register on 8th September, the Transporter will create a Supply Point Offer, and submit a Supply Point Reconfirmation on behalf of the incumbent User, with a Proposed Supply Point Registration Date of 1st October.

The Supply Point Offer so created will specify the values for Supply Point Capacity and Supply Point Offtake Rate recorded in the Supply Point Register as of 8th September.

Supplementary Provisions

With effect from the date of implementation of this proposal, no Firm Supply Point will be permitted to change its status to Interruptible.

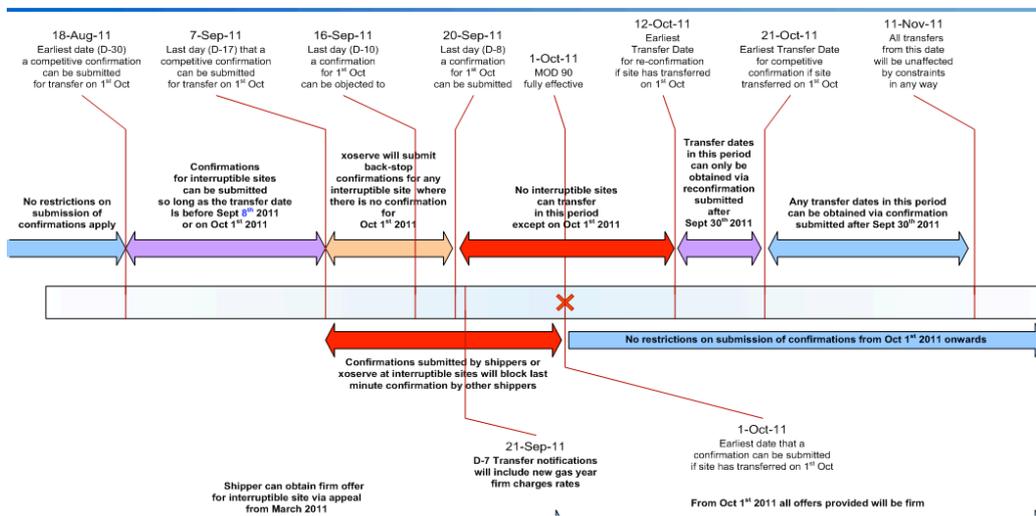
Where a User, (the "incoming User") warrants that a supply contract commenced on a date falling within the period 8th September to 19th October inclusive, and had these arrangements not been in effect would have initiated a Supply Point Registration for Supply Point Registration Date aligned to the commencement of the supply contract, the incoming User shall register the Supply Point as soon as is reasonably practicable after 19th October. Where this is the case, the incoming User shall notify the Transporters' agent in writing that it believes that an energy reconciliation and adjustment of Transportation Charges between the incoming and exiting Users is due; referencing the date that the Supply Point Registration would have taken place so as to align with the supply agreement.

Below is the proposed time line that will operate during the transition period (it is not envisaged that this will be drafted into legal text, it is simply provided for operational guidance):

DM Ratchets

Ratchet charges will not be levied for a Site transferring from Interruptible to Firm meter point until the meter point's initial 12 month anniversary as a Firm Daily Metered Meter Point.

Supply Type Initialisation Proposed Solution - Timeline



0367A

Modification

03 March 2011

Version 1.0

Page 8 of 16

© 2011 all rights reserved

4 Relevant Objectives

The Proposer believes that this modification will better facilitate the achievement of **Relevant Objective f.**

Proposer's view of the benefits of 0367 against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipeline system.	No
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipeline system of one or more other relevant gas transporters.	No
c) Efficient discharge of the licensee's obligations.	No
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.	No
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

As part of the implementation of Modification 0090, with effect from 1st October 2011, it is requirement of the UNC that all Supply Points are charged as Firm. It is believed that the most efficient and comprehensive way of ensuring that existing Interruptible Supply Points transition to Firm is if relevant Users undertake Supply Point Reconfirmation to take effect from the relevant date. Hence, relevant objective (f) would be facilitated by implementation. In addition, allowing a soft landing which protects consumers who may not be familiar with the forthcoming changes is consistent with efficient implementation of the UNC.

5 Impacts and Costs

Costs

It is anticipated that costs will be incurred by the Transporters' agent in both developing and testing the functionality to register Supply Points on a shipper's behalf. It is also anticipated that cost would be incurred where the default Supply Point Confirmation route is used.

However, given that this functionality is required to implement interruption reform, it is proposed that no costs are recharged to Users.

For the avoidance of doubt: This is not a "User Pays" Proposal.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none">• New functionality will be developed to give Transporters the capability to register Supply Points on behalf of Users where an appropriate User registration is not in place.• New functionality will be developed to restrict confirmation effective dates for the affected supply points
Operational Processes	<ul style="list-style-type: none">• This Proposal will introduce some new operational process to facilitate the conversion from Interruptible to Firm. These processes will be temporary in nature.
User Pays implications	<ul style="list-style-type: none">• None

Impact on Users	
Area of Users' business	Potential impact

0367A

Modification

03 March 2011

Version 1.0

Page 10 of 16

© 2011 all rights reserved

Impact on Users	
Administrative and operational	<ul style="list-style-type: none"> Users will be required to re-register their Interruptible Supply Points as Firm
Development, capital and operating costs	<ul style="list-style-type: none"> As the Proposal utilises existing processes, it is anticipated that this event will have minimal effect on Users' systems
Contractual risks	<ul style="list-style-type: none"> There is a risk the SPA process restrictions will prevent the incoming User from aligning the Supply Point Registration Date with its supply contract start date. This risk will be mitigated by a retrospective alignment of Transportation charges and energy reconciliation to the supply contract start date upon request.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None envisaged

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"> None
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"> None
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
Transition Document IIC	Temporary rules would be required for the SPA process as it applies to the current population of Interruptible Supply Points

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

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

0367A

Modification

03 March 2011

Version 1.0

Page 12 of 16

© 2011 all rights reserved

Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

0367A

Modification

03 March 2011

Version 1.0

Page 13 of 16

© 2011 all rights reserved

6 Implementation

Although this Proposal does not restrict activities until September 2011, it is proposed to be implemented as soon as possible to provide surety to industry participants as to how the transition from Interruptible to Firm for the purposes of interruption reform will be managed.

Early implementation will also allow as much time as possible for industry engagement to ensure the process is understood and that the reporting arrangements can be developed.

0367A

Modification

03 March 2011

Version 1.0

Page 14 of 16

© 2011 all rights reserved

7 The Case for Change

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

Advantages

By using tried and tested standard industry process, and by minimising the period of time that SPA restrictions would need to apply, the conversion of the Interruptible Supply Point population to Firm (either DM or NDM as permitted under TPD Section 1.5), this proposal provides a set of arrangements that cause the minimum disruption to the normal running of the UNC.

The Proposal also permits Transporters to take necessary steps where the User has not done so.

Disadvantages

The conversion period covers a busy time in the Supply Point calendar but it is anticipated that these operational difficulties can be effectively mitigated. Following concerns expressed at the Distribution Workstream in October 2010, an operational workshop was held with User representatives familiar with the SPA processes. Whilst the view was that it would have been preferable if the conversion could have been scheduled for a quieter time of the year there was no over-riding reason why a mass switch on 1st October date could not be facilitated.

It is recognised that where a supply point transfer between shippers cannot be aligned with the underlying supply contract, there is a potential for the suppliers to be exposed to some gas cost risk, that is, the supplier's gas purchase cost versus the SAP value used in the reconciliation process. In mitigation, with the sites being DM, transfer reads should be readily available to determine the reconciliation value.

8 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Alternative Modification 0367A progresses to Workgroup 0367 for assessment alongside the original modification.

0367A

Modification

03 March 2011

Version 1.0

Page 16 of 16

© 2011 all rights reserved