









Final Modification Report	At what stage is this document in the process?
<h1 data-bbox="132 320 657 412">UNC 0818:</h1> <h2 data-bbox="132 450 1153 589">Releasing of unused capacity under a specific set of circumstances</h2>	<div data-bbox="1212 320 1473 633"> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>Occasionally capacity is booked but remains unused for years. This is only an issue for other Shippers and end consumers where there is limited capacity available on the same part of the system. This Modification is to release the unused capacity only where a site meets set specific criteria. These criteria are detailed and specific with a site having to meet all of the criteria for the modification to apply to them. The intention is that this Modification will be limited to a small number of sites who it is believed are holding capacity they are not using and have not used for at least 36 months; and where there is a genuine need by others for capacity but this is current unavailable because sites are holding excess capacity.</p>	
<p>Next Steps:</p> <p>Panel consideration is due on 16 March 2023</p>	
<p>Impacted Parties:</p> <p>High: Shippers, Distribution Network Operators, Some I&C consumers</p> <p>Low: Suppliers</p> <p>None: NTS, IGTs</p>	
<p>Impacted Codes:</p> <p>No other code impacts are identified (IGT CSEPs will be out of scope of this Modification).</p>	

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Timetable		 0121 288 2107
Modification timetable:		Proposer: Tracey Saunders Northern Gas Networks
Pre-Modification Discussed (<i>distribution</i>)	28 Jul 2022	 enquiries@gasgovernance.co.uk
Date Modification Raised	16 Aug 2022	 trsaunders@northernngas.co.uk
New Modification to be considered by Panel	15 Sep 2022	 07580 215743
First Workgroup Meeting	22 Sep 2022	Transporter: Tracey Saunders Northern Gas Networks
Workgroup Report to be presented to Panel	19 Jan 2023	 trsaunders@northernngas.co.uk
Draft Modification Report issued for consultation	20 Jan 2023	 07580 215743
Consultation Close-out for representations	24 Feb 2023	Systems Provider: Xoserve
Final Modification Report available for Panel	28 Feb 2023	 UKLink@xoserve.com
Modification Panel decision	16 Mar 2023	

1 Summary

What

The UNC works on the principle that as long as capacity is being paid for, there is no explicit obligation for the whole of the capacity to be utilised. This allows Users to plan for their capacity, and in the case of Class 1 and 2 sites, book capacity to minimise risk of overuse and incurring ratchets.

In some instances, this can result in sites booking a significantly higher capacity than they utilise, which can be inefficient for the Site, Shipper, and/or Distribution Network Operator (DNO). The Supply Point Offtake Rate (SPOR) Review Process (also referred to as Mod 390 process) as per UNC TPD Annex B-3 11 is in place so that DNOs can reach out to these sites to advise them of the overbooking and ask them if they would like to consider reducing their booked capacity.

The potential issue arises where a site has booked capacity on an enduring basis that is significantly higher than their usage, and the site is in an area of the Distribution Network where there may only be limited available capacity for other Users. This can result in capacity requests from other Sites/Shippers being rejected, resulting in risk of additional costs to these sites to pay reinforcement costs should they wish to secure the additional capacity.

Why

Occasionally capacity is booked but remains unused for years. This is only an issue for other Shippers and end consumers where there is limited capacity available on the same part of the system. This Modification is to release the unused capacity only where a site meets set specific criteria. This criteria is detailed and specific with a site having to meet all of the criteria for the modification to apply to them: The intent of which is that this modification will be limited to a small number of sites who it is believed are holding capacity they are not using, and have not used for at least 36 months; and where there is a genuine need by others for capacity but this is current unavailable because sites holding excess capacity.

In areas of the Distribution Network that have limited capacity available for other Users DNOs may have to: a) ask any sites, wishing to reserve capacity that is currently unavailable, to have to pay for reinforcement works which can be costly, or b) in other cases the DNO may be required to pay to reinforce the Distribution Network to maintain their 1 in 20 planning requirements, which is an obligation in the Gas Transporters Licence Standard Special Condition A9¹ (SSCA9) obligations, a cost which is later recovered under the pricing methodology. Both of these options have adverse impacts to end consumers and are inefficient use of the Distribution Network.

Whilst this is unavoidable in most circumstances, there are occasional circumstances where capacity has been booked that is significantly higher than the capacity that has been used on an enduring basis, including any peak offtake.

By releasing the unused 'sterilised' capacity back to the DNO this ought to aid in increased competition as this should allow other Shippers, who require capacity on this area of the Distribution Network that has previously been unavailable, a chance for successful capacity nomination referrals.

Increasing capacity in areas of limited availability reduces the need for Sites to have to pay for costly reinforcement works which could be the only other option for them to be able to make available the capacity they require.

¹ <https://epr.ofgem.gov.uk/Document>

Increasing the available capacity in areas where there is only limited capacity available should aid the DNOs in ensuring they meet their 1 in 20 planning requirements, reducing the need for costly reinforcement works, which are recovered via pricing. This should aid efficient running of the Distribution Networks and potentially keep associated reinforcement costs, that can impact end customer's bills, as low as possible.

How

This Modification proposal looks to introduce an annual process which gives the DNOs the ability to identify Sites that meet specific criteria:

- That the Site is in Class 1 (and has been for at least 3 years). This also include Sites that have been Transporter designated under UNC TPD 4.7.16 (also known as mod 655 process) for a minimum of 3 years
- The Site has not paid for reinforcement works in order to book the capacity they currently hold
- The Site is directly connected to the Distribution Network (i.e. not via a CSEP)
- That the Site must be on an area of the Distribution Network where there is limited available capacity for other Sites/Users
- That the Site must have been consistently under using its booked capacity for at least 3 years, this will be extended to take account of periods of exceptional circumstances (e.g. Covid).
- That the site must have been included in the SPOR process within the 15 months prior
- That the Site is not category A Priority Supply Point (as defined by Secretary of State)

Other history around the Site may also be taken into consideration (for example the mod 390 process).

Where a Site meets the criteria, this will result in the ability for the DNO to consider the Site eligible for a reduction (which will result in a Supply Point Offtake Rate of no less than 150% single highest hourly offtake rate (in kWh/hour) recorded at the DM Supply Point during same period). In these instances a notification would be sent to the Shipper, containing relevant information about the Site and the proposed new Supply Point Offtake Rate (SHQ), and new peak daily load (SOQ) which will be SHQ x 16 (unless otherwise stated), which the Shipper would then have the ability to appeal.

2 Governance

Justification for Authority Direction

As this Modification could have a material impact on efficient use of Distribution Network and/or end consumer funding in relation to provision of available capacity, and is looking to introduce a process that is only relevant to Class 1 sites, the Proposer recommends that this Modification should be Authority Direction.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup.

3 Why Change?

The current principle within UNC is that a user is entitled to retain booked & confirmed capacity, regardless of whether they use all of the capacity, as long as they are paying for it.

Whilst this is a solid principle there are some instances where this booked, but unused, capacity could be preventing other users from being able to book the required capacity they need, this is commonly known in industry as 'sterilised capacity'. Why a Shipper/end consumer has booked this excess capacity can include, for example, it being line with business expansion plans and they need to ensure the capacity is available to them before undertaking costly building works etc.

The Distribution Network Operators (DNOs) have the ability to write to sites under the Supply Point Offtake Rate (SPOR) Review Process (also known as 'Mod 390' process') as per UNC TPD B11, to advise them that they have excess capacity booked, and to ask them to consider reducing their booking. Whilst this process obliges the Shipper to enter into discussions with the identified sites, it does not oblige the Shipper User, or the end consumer, to reduce their capacity booking.

Where there are areas of the Distribution Network that may have limited capacity available for other Shipper Users, DNOs may have to either ask any sites, wishing to reserve capacity that is currently unavailable, to have to pay for reinforcement works which can be costly. Or in other cases the DNO may be required to pay to reinforce the Distribution Network to maintain their 1 in 20 planning obligations as per their Gas Transporters licence, a cost which is later recovered under the pricing methodology. Both of these options have adverse impacts to end consumers connected to that specific Distribution Network.

Whilst this is unavoidable in most circumstances, there are occasional circumstances where capacity has been booked that is significantly higher than the level of capacity that has been used on an enduring basis, including any peak offtake.

This modification proposal is looking at only these sites: i.e. where they are on a part of the Distribution Network that has limited available capacity for other Shipper Users, and bookings are considerably higher than the recorded peak capacity use.

This modification proposal looks to introduce the ability for the DNOs to review booked capacity vs utilised capacity under a specific, strict, set of circumstances and, where relevant, for the capacity to be reduced to a new value stated by the DNO. Once the capacity has been reduced for the site/s, the DNOs will follow standard process in relation to requests for capacity for this area, and any other, of their network

By releasing the unused 'sterilised' capacity back to the Distribution Network this could aid in increased competition as this should allow other Shippers who require capacity on this area of the Distribution Network, that has previously been unavailable, a chance for successful capacity nomination referrals.

By increasing the available capacity, in areas where there is only limited capacity available, this should reduce the need for sites to have to pay for costly reinforcement works which could be the only other available option for them to be able to make available the capacity they require.

By increasing the available capacity in areas where there is only limited capacity available, this should aid the DNOs in ensuring they meet their 1 in 20 planning requirements, reducing the need for costly reinforcement works, which are recovered via pricing. This should aid in efficient running of the Distribution Network and potentially keep associated reinforcement costs, that can impact end customer's bills, as low as possible.

The site would need to meet the following criteria:

- That the Site is in Class 1 (and has been for at least 3 years). This also include Sites that have been Transporter designated under UNC TPD 4.7.16 (also known as mod 655 process) for a minimum of 3 years
- The site has been included in the SPOR (UNC TPD Annex B-3 11) process within prior 15 months
- The Site has not paid for reinforcement works in order to book the capacity they currently hold
- The Site is directly connected to the Distribution Network (i.e. not via a CSEP)
- That the Site is not category A Priority Supply Point (as defined by Secretary of State)
- That the Site must be on an area of the Distribution Network where there is limited available capacity for other Sites/Users
- That the Site must have been consistently under using its booked capacity for at least 3 years, this will be extended to take account of periods of exceptional circumstances (e.g. Covid).

Other history around the Site may also be taken into consideration (for example the mod 390 process).

Where a Site meets the criteria, this will result in the ability for the DNO to consider the Site eligible for a reduction (which will result in a Supply Point Offtake Rate of no less than 150% single highest hourly offtake rate (in kWh/hour) recorded at the DM Supply Point during same period). In these instances a notification would be sent to the Shipper, containing relevant information about the Site and the proposed new Supply Point Offtake Rate (SHQ), and new peak daily load (SOQ) which will be SHQ x 16 (unless otherwise stated).

An appeal window which could, for example, take into account evidence of plans for the capacity to be utilised at a point within the next 3 or less years, would be included in the process. Any appeal would also be invited to, where relevant, include a counter capacity reduction figure if the appeal evidence demonstrates an alternative reduced figure would be more appropriate.

Any site selected (where is it not subject to a successful appeal removing it from the process) would then be reduced to the DN suggested SOQ (or in the event of a successful counter appeal, the agreed SOQ) by the incumbent Shipper on a specific date within the Capacity Reduction Window.

It should be noted that where a Shipper fails to reduce the capacity, the CDSP will be given an obligation to do so, and for them to do this at cost to the shipper that was in place for the site on the specified reduction date.

We would look to introduce a capacity reduction assessment process as follows:

- Day 1: The Transporter provides the information relating to sites meeting the criteria, and where capacity is proposed to be reduced, to the relevant shipper
- Month 1 & 2: Appeal process, this is where the Shipper can provide any relevant information they have (including from the site) in relation to plans for the capacity to be utilised at a point within the next 3 or less years. This can include a counter capacity reduction figure if the appeal evidence warrants an alternative reduced figure. *Shippers are encouraged to also confirm where there is no challenge to the reduction.*
- Month 3: DN to consider appeal and confirm outcome to Shipper. *(Any sites successfully appealed to be removed from the process will not progress any further)*
- Month 4: Shipper to notify site of final outcome,
- Month 4 + 1day (capacity reduction date): Shipper to reduce the capacity to the figures as per the figures confirmed in month 3, *(This date will be within the capacity reduction window).*
- Month 5 (Backstop date): CDSP may reduce capacity where it has not been carried out by the relevant shipper at month 4.

For any site where SOQ is reduced under this process the Registered User shall not be liable for any Supply Point Ratchet Charge in respect of the Supply Point for a period of 12 months (also known as a 'soft landing' period).

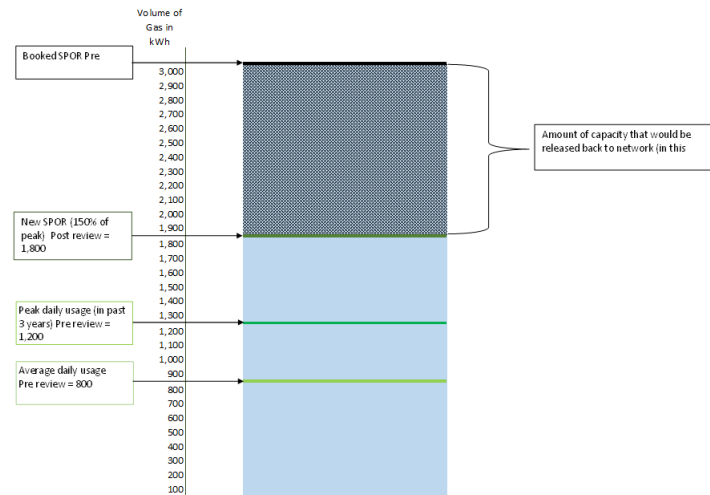
Once a Site has been identified and its SOQ reduction has been successfully completed, the site will be subject to standard UNC rules, and may seek to increase, or decrease its capacity accordingly.

All 'days' quoted are calendar days

Worked example:

The following site meets the criteria, and has the following values:

- Booked Capacity = This is set to 3,000 kWh
- Its average daily usage is 800 kWh
- Over the prior 3 year period the site has had a peak offtake of a daily usage of 1,200 kWh
- Therefore the site is proposed to be reduced to 150% of its peak usage, i.e. 1,200 kWh X 150% = 1,800 kWh
- Sites Supply Point Offtake Rate (SHQ) is reduced from 3,000 kWh to 1,800 kWh under the process, thereby releasing 1,200 kWh of capacity back to the network.
- SHQ x 16 results in potentially 18,400 daily capacity (SOQ) becoming available for other Users



4 Code Specific Matters

Reference Documents

None

Knowledge/Skills

Knowledge of the UNC, especially in relation to Supply Point Capacity.

Understanding of 1 in 20 conditions as stated in the Gas Transporters Licence Standard Special Condition A9¹ above

5 Solution

To add Capacity Reduction Assessment Process into the UNC.

Business Rules:

- 1) Site nomination criteria:
 - a) That the site is in Class 1 (and has been for at least 3 years). This also include sites that have been transporter designated, under UNC TPD 4.7.16, for 3 or more years.
 - b) That the site must be directly connected to the DNO network (i.e. not via a CSEP)

- c) That the site has not paid for reinforcement work specific to capacity for the MPRN being considered under this process
 - d) That the site must be on an area of the Distribution Network where there is limited available capacity for other sites/Users
 - e) That the site must have been consistently under using its booked capacity for at least (3) years, this will be extended to take account of periods of exceptional circumstances (e.g. Covid)
 - f) The site must have been included in the UNC Section G 5.7 Supply Point Offtake Rate Review Process within the prior 15 months.
 - g) Other history around the site may also be taken into consideration (for example the UNC Section G 5.7 Supply Point Offtake Rate Review Process).
 - h) That the Site is not category A Priority Supply Point (as defined by the Secretary of State)
- 2) Information that must be provided by the Transporter for sites nominated, and meeting the above criteria:
- a) the new SHQ & SOQ that the capacity is to be reduced to, which cannot be less than 150% of the highest the single highest offtake rate (in kWh/day) recorded at the DM Supply point over the past (3) years. The SOQ will be calculated as SHQ x 16 unless otherwise stated.
 - b) the existing SOQ & SHQ for the time being held by the Registered User (the “Existing Supply Point Offtake Rate”)
 - c) the Meter Point Reference Number
 - d) the Supply Point Reference Number
 - e) the address details; and
 - f) any further information relating to the DM Supply Point Component that the DNO considers would assist the Registered User
- 3) Process timeline (calendar days)
- a) D-121 Transporter advises Shipper of nominated sites and all relevant information (as per BR2)
 - b) D-120 Appeal Window opens
 - c) D-61 Appeal Window closes
 - d) D-60 to D-32 Transporter to consider appeal
 - e) D- 31 Transporter to notify Shipper of outcome of appeal
 - f) D-30 to D-1 Shipper to advise site of outcome of process, including date of reduction and the new SOQ & SHQ that will be in force at this date.
 - g) D = Date that the User reduces capacity booking for nominated site (Transporter Nominated Capacity Reduction Date)
 - h) D +30 CDSP Transporter Nominated Capacity Reduction Backstop date: From this date, the CDSP may carry out a reduction on Shipper behalf, where Shipper has not yet done so under (g)
 - i) D+ The Registered User shall not be liable for any Supply Point Ratchet Charge in respect of the Supply Point for a period of 12 months.
- 4) Capacity can be reduced within the capacity reduction window as defined in UNC TPD B 2.2 and by the CDSP on at any time in relation to the Transporter Nominated Capacity Reduction Backstop)

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

What is the current consumer experience and what would the new consumer experience be?

Workgroup has discussed the table below with the Proposer and the resulting entries have been updated in line with Workgroup comments.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
<p>Lower bills than would otherwise be the case</p> <p>Decreasing the Capacity charge element for identified sites where Supply Point Offtake Rate is reduced for Class 1 sites.</p> <p>Potentially reducing the need for Sites to have to fund reinforcement works where they require additional or new capacity in 'restricted' areas of the Distribution Network</p>	Positive for transportation costs for site in relation to site specific reinforcement costs.
<p>Reduced environmental damage</p> <p>As this could potentially reducing the need for reinforcement works, which can have an impact on the environment, the impact to the environment will be by definition be lower where no works take place, than they would be where any works take place, regardless of the care and consideration of impact of these works.</p>	Positive

<p>Improved quality of service</p> <p>Potentially reducing the need for Sites, who meet the criteria as stated in Gas Transporter Licence Condition 4b Connections Charging Methodology Statement², to have to fund reinforcement works where they require additional or new capacity in 'restricted' areas of the network</p> <p>Potentially reducing the risk of reinforcement works on the Distribution Network,</p> <p>Any reinforcement works impacts consumers and general public in the area. Roadworks as well as temporary interruptions or fluctuations to supply may be an impact of reinforcement that would therefore be reduced if less, or no, reinforcement was needed.</p>	<p>Positive in relation to impact of reinforcement.</p>
<p>Benefits for society as a whole</p> <p>The ability for new sites to potentially connect without reinforcement costs could have an impact as to whether a business or site sets up in the area, which could have a direct impact on local jobs and economy</p>	<p>Positive (at a local level)</p>

Cross-Code Impacts

No Cross code impacts have been identified. This only impacts DN direct connect sites that are Class 1 and that meet specific criteria.

EU Code Impacts

None identified.

Central Systems Impacts

Identified system changes:

- CDSP to enact capacity reduction where Shipper has failed to do so (Change to DSC Service line as the relevant Shipper should bear any specific CDSP costs of reducing the capacity, including any administration costs)
- CDSP to apply & remove Ratchet 'soft landing'
- CDSP to provide reports to DNs in relation to bookings vs capacity etc as identified under any required Change process
- CDSP to manage process and provide relevant manual or system flows to ensure data is passed between DNs and Shipper Users in relation to the process

Due to the limited number of sites that could potentially be included in this modification proposal, it is envisaged that the CDSP would manage this as a manual process using existing resources.

The change proposal for this Modification is XRN 5602.

The CDSP Service Area applicable for this Modification is likely to be Service Area 3, however this would be discussed by the DSC Change Management Committee since the funding associated by default with Service

² <https://www.northerngasnetworks.co.uk/document-library/>

Area 3 is 90% Shipper /10% DNO (this can be changed by the relevant DSC Committee). Please note however there is no cost associated with this Change Proposal as set out in this Modification.

Workgroup Participants did not agree with this funding allocation and approach and noted it must be altered and agreed at DSC Change Management Committee.

Workgroup Participants welcomed the clarity afforded by the introduction of this information at this stage in the process.

Performance Assurance Considerations

No Performance Assurance considerations expected.

Panel Questions and initial representations and Workgroup Impact Assessment

1. This Modification gives the GDNs the power to dictate large DM sites that have booked capacity and not used it, which may be for a number of reasons – one of which currently may be due to increased gas costs. Where no relationship exists between the customer and the GDN, do Workgroup members think this is appropriate where GDN decisions may have adverse impacts on large sites such as I&C production sites and hospitals?

Proposer response:

In response to the queries raised by the Panel Member and some Workgroup Participants regarding hospitals please be advised that v2.0 of the Modification will have an additional criterion which excludes site where there is a risk to life. 'The site must not be a Priority Consumer Category A site (as defined by Secretary of State)'. Similarly, please note that reduction of capacity does not stop a site from exceeding their SOQ but introduces incentives for the capacity not to exceed the booking (e.g., Ratchet Regime).

Workgroup response:

Some Workgroup Participants acknowledged that the exclusion of certain Priority Consumer Category A sites had now been specifically made. Penalising certain sites through the penal Ratchet regime is not a good outcome for customers.

Workgroup noted that there are no new incentives, however the incentives (via Ratchets) come into play through the changes made by the Modification.

The Proposer noted there is a buffer provided in terms of a capacity amount above the SOQ.

Some Workgroup Participants noted that ratchet incentives have been in existence, but they will come into play at a lower level as a result of the changes in the Modification. Ratchets are a penalty mechanism. There is a soft landing for sites affected by this change.

2. The Modification directs that communications regarding this imposed capacity reduction are passed to the customer via the Shipper. What would happen if this communication route breaks down and the GDN imposes a capacity reduction on the customer without their knowledge? Would the GDN carry the legal liability for any losses incurred by the customer?

Proposer response:

There would be an obligation introduced into Code on the Shipper, and whilst Code should not be expected to have additional clauses to protect from the consequences of a party failing to meet its obligations, the Workgroup acknowledges the potential risk of impact to a 3rd party. The contract(s) between Shipper / (Supplier) and Site is a commercial arrangement, and it is already the responsibility of the Shipper to ensure that all UNC obligations are managed as part of this. Networks do not currently take responsibility for any liabilities incurred by a site should a Shipper fail in their obligations under Code, this would be no different.

Workgroup response:

Some Workgroup Participants noted the commercial nature of the relationship and thus questioned why the DN is being allowed to interfere with these arrangements and unilaterally change the nature of the relationship. The voluntary arrangement already in existence (SPOR report) process should be adequate.

In addition, this is a new and fundamental type of change which is affecting the SOQ. Until now it has not been possible to make unilateral changes.

The Proposer responded by confirming that the engagement via the SPOR process is poor and utilising the SPOR process has not been successful. The Modification is only aimed at areas of recognised constraint.

A Workgroup Participant noted that this indicates that customers continue to want the capacity and are happy to continue to pay to do so, thereby contributing to network costs.

3. What costs have been incurred by consumers as a result of the issue set out in the problem statement - costs of constraint and unnecessary reinforcement etc".

Proposer response:

Historically data has not been specifically retained around capacity bookings and usage for individual sites in areas where reinforcement has happened in the past, so this data cannot be provided. However, the Proposer is working with internal teams, and other networks, to assess the potential cost of reinforcement in the future for currently restrained areas of networks so this can potentially be provided at an aggregate level to the Authority on request.

Workgroup response:

Some Workgroup Participants asked to what extent do customers overpay against what they are actually using? They do so to protect their position. If this Modification is implemented the premium they are effectively paying is no longer protecting their position so may choose to change their strategy and thus book a lower amount of capacity. This will have a knock on effect on DN Revenue.

A Workgroup Participant asked how Shippers will know where the constraints are?

The Proposer confirmed that the sites will only be targeted where capacity has had to be rejected because of constraint. Releasing information around this is difficult and would potentially reveal sensitive information.

Some Workgroup Participants asked for confirmation as to whether the Modification is aimed at areas where capacity requested have been rejected or where they would require reinforcement (cost avoidance)?

The Proposer confirmed reinforcement is planned a significant period in advance. In some areas, reinforcement is not possible. Rejection would occur under current system constraints. A site would then be able to discuss potential reinforcement (and the costs and timescales pertinent to this).

A Workgroup Participant noted that the assumption that the gap in the revenue is filled immediately may not be factually correct. There is likely to be a time lag between capacity being taken from a User to be given to another User. It is likely that the incoming User would need to have made large Capital Investment and therefore there is likely to be a gap where revenue would be lost. This comment applies to Q5 below as well.

Industrial Consumer Representative questions

4. In a future when demand is predicted to fall, why would a GDN want to prevent a consumer from paying for capacity they are not using?

Proposer response:

This Modification is intended to free up held but unused 'sterilised' capacity, where other Users would benefit from it (i.e. where DNs had to reject capacity nominations or identify specific reinforcement costs through applications for new connections).

Workgroup response:

Workgroup Participants noted this area is covered by comments above under Q1.

5. With domestic demand under threat with the Government pushing heat pumps, the remaining gas consumers are already facing increases in GDN charges, why turn away revenue from large consumers who are prepared to pay for capacity they may not use?

Proposer response:

As above.

Workgroup response:

See comment under Q3.

6. At a time when many businesses are under threat of closure this modification sends out the wrong message to the industry. I would also suggest it should be a time to reassess demand requirements before making this step.

Proposer response:

In a time when businesses are under threat of closure holding unused capacity, in areas where capacity is not freely available, is potentially preventing existing businesses who want to expand or new businesses from being able to connect. Sterilising capacity and preventing this new growth from other consumers is what we are trying to prevent.

Workgroup response:

Workgroup Participant noted this is not a question but rather a statement. It is for Parties to pick up in their consultation responses.

7. As the Modification says, the GDN already has the power to discuss a site's usage with its owner. The GDN should use the power of persuasion and not be dictatorial in bringing about the change they require and ignoring their consumer's desire. The GDN has the power to advise the Shipper of the sites uses.

Proposer response:

Under the SPOR process it is the shipper that has the conversations with the site (not the GDN). From an NGN perspective, the SPOR process does not always result in engagement from every shipper, and those that do, do not always receive engagement from the site. In the limited cases where the process outcome is an agreement of a reduction in capacity, the actual capacity reduction rarely, if at all, occurs.

Workgroup response:

See response to Q2 and Q3.

A Workgroup Participant asked for clarification of the SPOR process and it was clarified that the SPOR process ends and then as a result the can Shipper voluntarily submit a capacity reduction.

8. I am opposed to giving the GDN the power to independently decide how much capacity a site can have.

Proposer response:

It is acknowledged this is a personal opinion, which, of course, everyone is entitled to. NGN does expect that this Modification will not be liked by everyone, however NGN appreciates all the views and comments received via workgroup and consultation.

Do note also that the Modification includes an appeal process that is intended to enable discussion amongst all parties involved. Hopefully the answers to the other questions posed will give some additional clarity and reassurance around the reason for this Modification and its limited scope.

Workgroup response:

Workgroup Participants noted there are different views which will undoubtedly be brought out in consultation responses.

9. Unless any reduction in capacity demand is immediately replaced by new consumers, charges for all remaining users will automatically increase to recover the GDN's allowed revenue.

Proposer response:

NGN anticipates that the sites will be in an area where there is little or no available capacity for other users. Part of the history of sites that will be considered is whether the DN has had nomination referrals that have had to be rejected due to unavailable capacity, therefore a take up of the capacity by other parties would be expected. History of new connection requests that resulted in specific reinforcement costs to the applicant, and then not taken up, will also be considered when assessing the potential sites that this may impact. This is the reason for the Modification, i.e. to free up unused capacity for others who require it, where there is currently none available.

NGN does however accept that this cannot be guaranteed, so whilst unlikely, there is the possibility that this could happen.

Workgroup response:

See response relating to the gap in revenue to Q3 and Q5.

10. Many consumers, including domestic, will have last used their maximum demand in March 2018, more than 4 years ago, which negates the three years contained in the modification.

Proposer response:

Making an assumption that this date is potentially an error, and that this refers to Covid, (1st lockdown was from March 2020): The Modification is drafted as '3 years with extra time taken into account for periods of exceptional circumstances', therefore counting both Covid and the energy crisis as exceptional circumstances would currently extend the period of assessment back to 3 years pre Covid, (to March 2017) which in reality is at least a 6 year assessment period).

It should also be noted that domestic sites are excluded from the Modification due to one of the specific criteria the site has to meet being 'That the Site is in Class 1'.

Workgroup response:

Workgroup Participants had no further comments.

11. Perhaps there is a role for the amended Demand Side Response product to encourage large consumers to reduce their firm capacity bookings with the balance made up by DSR. Alternately consumers requesting a new connection could be offered a non-firm capacity booking linked to DSR.

Proposer response:

The DSR is an NTS only product (i.e. not available to Distribution Networks) and is specifically around voluntary curtailment to reduce impact of a Gas Deficit Emergency on Firm Load Shedding requirements. This is therefore not relevant to UNC Modification 0818.

Workgroup response:

Workgroup Participants had no further comments.

Proposer's general comments

This will impact some large I&C consumers, by reducing costs where capacity is held but not utilised. It should also allow new connections for consumers in the same 'constrained' areas of the network where a site has been identified, and successfully had capacity reduced under this process.

It potentially could result in savings for all end consumers by reducing the need for reinforcement, which is included in DNO pricing, where a successful capacity reduction removes the need for reinforcement of a Distribution Network in relation to maintaining 1 in 20 peak demand. It should be noted that charging is between DNO & Shipper User, and the impact of any changes to these costs, to the end consumers, would be subject to how the rest of the supply chain manage and process these.

Workgroup response:

Workgroup Participants referred to responses given above

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	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
c) Efficient discharge of the licensee's obligations.	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.	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
f) Promotion of efficiency in the implementation and administration of the Code.	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

Relevant Objectives a) *efficient and economic operation of the pipe-line system* and c) *efficient discharge of the licensee's obligations* are furthered due to the actual bookings closer reflecting the usage of the Distribution Network. Thereby allowing for more efficient and accurate modelling and reducing potential risk in maintaining

1 in 20 peak demand. This should thereby decrease the need for unnecessary reinforcement of the network in order to maintain the 1 in 20 position as required by Gas Transporters Licence Standard Special Condition A9.

Relevant Objective d) *securing of effective competition (i) between relevant shippers* is furthered due to the release of unused capacity in 'restricted' areas, thereby facilitating increased competition by releasing this capacity to be available for other shippers to also request to utilise.

Workgroup Assessment of Relevant Objectives

Some Workgroup Participants disagreed and asserted that the Modification is negative for both Relevant Objectives a) and c):

In terms of Relevant Objective a), removing capacity from one party to give it to another is not as efficient as allowing a User to connect in a place where there is no constraint, all other things being equal.

Some Workgroup Participants disagreed with the argument put forward under Relevant Objective c), asserting that any reinforcement would be necessary not unnecessary.

This Modification is only addressing sites in areas where the network is constrained; not all situations where the SOQ is potentially set higher than needed are being targeted by this Modification. Therefore, the Modification would not address all situations where the modelling is not perceived to be accurate.

The Proposer noted that the sites targeted by this Modification are very specific and related only to capacity constrained locations.

Some Workgroup Participants noted that competition relates to an open market whereas this Modification allows for a DN to intervene into an open market without the User's consent; this is not positive for Relevant Objective d). It could be argued that the new User who wants to connect should access capacity at a better location where capacity is available, and this would be better for competition (driving prices down) since the new User would pay additional capacity costs thereby increasing revenue to the DN.

Some Workgroup Participants noted that there is no impact on competition other than the very tenuous assertion that a new User could enter the market, though an argument could be made for the new User connecting in a different location.

8 Implementation

As this is an Authority Direction Modification it could be implemented as soon as directed by the Authority.

Workgroup Participants noted that if Authority approval is received prior to end April 2023, the Modification could be implemented such that the capacity reduction would take effect for the Gas Year beginning October 2023.

9 Legal Text

Legal Text has been provided by NGN and is published alongside this report.

The Workgroup has considered the Legal Text on 12 December 2022 and is satisfied that it meets the intent of the Solution.

Workgroup Assessment

The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Text Commentary

This is available here: <https://www.gasgovernance.co.uk/0818>

Text

This is available here: <https://www.gasgovernance.co.uk/0818>

10 Consultation

Panel invited representations from interested parties on 19 January 2023. All representations are encompassed within the Appended Representations section, including two initial representations.

The following table provides a high-level summary of the representations. Of the 8 representations received, 2 supported implementation, 2 provided comments and 4 were not in support.

Representations were received from the following parties:		
Organisation	Response	Relevant Objectives
Cadent Gas	Comments	a) None c) None d) None
ICoSS	Oppose	a) Negative c) Negative d) Negative
Northern Gas Networks	Support	a) Positive c) Positive d) Positive
SEFE Energy	Oppose	a) Negative c) Negative d) Negative
SGN	Comment	a) None c) None d) None
SSE Energy Supply Ltd	Oppose	a) Negative c) Negative d) Negative
TotalEnergies Gas & Power	Oppose	a) None c) None

		d) None
Wales & West Utilities	Support	a) Positive c) Positive d) Positive

Please note that late submitted representations may not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

Consideration of the Relevant Objectives

Determinations

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0818 **[should [not]** be implemented.

13 Appended Representations

Initial Representation – Citizens Advice

Initial Representation - Major Energy Users' Council

Representation – Cadent Gas Limited

Representation – ICoSS

Representation – NGN

Representation – SEFE Energy Limited

Representation – SGN

Representation – SSE Energy Supply Limited

Representation – TotalEnergies Gas & Power

Representation – Wales & West Utilities

UNC Representation received by Email

0818 - Releasing of unused capacity under a specific set of circumstances

Date: 16 September 2022

Organisation: Citizens Advice

Abstract:

Where appropriate those parties who are subject to this change should have the chance to be consulted as the Modification progresses. So if the Modification is intended to apply to only certain classes (class 1), those types of customers, and any representatives or associations, are notified and consulted on this potential change ahead of formal UNC consultation processes.

It feels like good practice to ensure those affected are aware of this and given the opportunity to feed into workgroups or through discussions outside of the formal UNC process (i.e. webinars).

Sam Hughes
Senior Policy Researcher / Uwch Ymchwilydd Polisi
[Citizens Advice](#)
[Cyngor ar Bopeth](#)

UNC Representation received by Email

0818 - Releasing of unused capacity under a specific set of circumstances

Date: 16 September 2022

Organisation: Major Energy Users' Council

Abstract:

In a future when demand is predicted to fall, why would a GDN want to prevent a consumer from paying for capacity they are not using?

With domestic demand under threat with the Government pushing heat pumps, the remaining gas consumers are already facing increases in GDN charges, why turn away revenue from large consumers who are prepared to pay for capacity they may not use?

At a time when many businesses are under threat of closure this modification sends out the wrong message to the industry. I would also suggest it should be a time to reassess demand requirements before making this step.

As the mod says, the GDN already has the power to discuss a site's usage with its owner. The GDN should use the power of persuasion and not be dictatorial in bringing about the change they require and ignoring their consumers desire.

I am opposed to giving the GDN the power to independently decide how much capacity a site can have.

Unless any reduction in capacity demand is immediately replaced by new consumers, charges for all remaining users will automatically increase to recover the GDN's allowed revenue.

Many consumers, including domestic, will have last used their maximum demand in March 2018, more than 4 years ago, which negates the three years contained in the Modification.

Perhaps there is a role for the amended Demand Side Response product to encourage large consumers to reduce their firm capacity bookings with the balance made up by DSR. Alternately consumers requesting a new connection could be offered a non-firm capacity booking linked to DSR.

At UNC Panel, the Proposer made the point, when responding to the Modification, on weekly capacity auctions that GDNs were excluded from taking part and that the Modification breached a Gas Transporter licence condition not to discriminate.

When asked how many consumers would be impacted by this Modification, the answer was not many. I therefore suggested that Modification 0818 was a breach of this condition as GDNs were happy to take money off other consumers where there was no capacity restrictions and would not reduce their capacity by using this Modification for them.

Regards Eddie

Eddie Proffitt
Technical Director
Major Energy Users Council

Representation - Draft Modification Report UNC 0818

Releasing of unused capacity under a specific set of circumstances

Responses invited by: **5pm on 24 February 2023**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Shiv Singh
Organisation:	Cadent
Date of Representation:	21 st February 2023
Support or oppose implementation?	Comments
Relevant Objective:	a) None c) None d) None
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Comments:

- GDNs should demonstrate that all other commercial options have been exhausted e.g. DN interruption Tenders have taken place targeting the area in question, and not produced the required outcome,
- proposed connections have been offered the option of an Interruptible contract which has been deemed unsuitable for their needs.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Implementation could take place as soon as possible as we envisage minimal impact.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

None

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

See comments provided.

Q2: Is the magnitude of the change proportionate to the need?

No.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

No.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

Please provide below any additional analysis or information to support your representation

N/a

Representation - Draft Modification Report UNC 0818

Releasing of unused capacity under a specific set of circumstances

Responses invited by: **5pm on 24 February 2023**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Gareth Evans
Organisation:	ICoSS
Date of Representation:	24 February 2023
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) Negative</p> <p>c) Negative</p> <p>d) Negative</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

This modification undermines a fundamental mechanism that has been present in the gas market since privatisation; the ability for Shippers on behalf of their Daily Metered customers to ensure they can access the network when required without incurring financial penalties or jeopardising system operations.

More specifically, we have numerous concerns over this proposal:

- The Gas Transporter will have sole discretion on what capacity a customer will be allowed to have as they can unilaterally revoke capacity at any time. Customers will need to rely on Gas Transporters' "goodwill" to ensure sufficient capacity, rather than being able to pay for access.
- Any appeal being considered by the same party who has proposed the reduction and provides no meaningful protection.
- The process is not transparent; Shippers will not be aware of which areas of the network are subject to "*constraints on the availability of System Point Capacity*" so all Daily Metered sites will now have significant uncertainty to the security of any capacity bookings they have made.

- The exclusion of Category A sites protects only a small subset of premises and does not prevent other Protected Users (such as those critical for national security) being denied access to the network.
- This proposal removes the ability for customers to protect themselves from ratchet charges by booking an appropriate margin of capacity.
- As stated in the modification, networks do not have historic information on system reinforcement costs and so the safeguard of not revoking capacity procured through payment of system reinforcement cost is meaningless.
- No provision is given for the potential future needs of the customer who have paid and maintained capacity bookings on the expectations they can access the network in the future.

More fundamentally, this modification removes any balance between the rights of Shippers and Gas Transporters with one party effectively making all distribution network capacity interruptible. This changes create significant uncertainty regarding capacity bookings and, more generally, creates a dangerous precedent where the Gas Transporters may revoke network access to customers who have paid for it in good faith. Such a precedent will damage market confidence.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

If this modification is implemented our concerns notwithstanding, we believe that will require a significant lead time as ALL Daily Metered customers are likely to review any capacity bookings with a view to reducing them as they now offer no guarantee

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Any long-term capacity booking above historic daily offtake peaks will now become worthless under this proposal as they provide no guarantee of network access. Our members will need to engage in a review of all such bookings with a view to reducing them.

If capacity reductions occur in a significant number of sites then we expect that members will have to accommodate significant increases in transportation unit rates to compensate for the loss in revenue from these capacity bookings. We note that no assessment has been included in the workgroup report regarding the amount of capacity at risk due to this modification.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We have not reviewed the legal text.

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

This modification will remove the ability for customers to ensure future capacity needs on the Gas Distribution Networks more than 3 years in advance. This will create significant

uncertainty for these parties who are seeking to increase their gas use, reducing the attractiveness of the gas market.

Q2: Is the magnitude of the change proportionate to the need?

No. This solution is disproportionate to the issue at hand. It will remove any certainty Shippers and customer have regarding capacity bookings to manage a comparatively minor issue to avoid the need for new potential customers to pay for system reinforcement. We do not agree this modification avoids unnecessary system reinforcement; if more is needed than the network can provide then the additional capacity provision is necessary. Existing processes for providing and funding that additional capacity should then be followed.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

Customers who pay for capacity should not have their business decisions questioned or overturned by the Gas Transporters. If the customer has been offered the opportunity to reduce their capacity and has indicated they wish to continue to pay for it, that decision should be respected.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

NA

Please provide below any additional analysis or information to support your representation

NA

Joint Office

enquiries@gasgovernance.co.uk

23rd February 2023

Dear Sir or Madam,

Re: 0818 - Releasing of unused capacity under a specific set of circumstances

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this change.

NGN supports this Modification Proposal.

Reason for support/opposition:

Please summarise (in one paragraph) the key reason(s)

We are supportive of this modification as it allows for a gas transporter to more effectively manage the network in relation to demand where there is limited available capacity.

The modification looks to reduce capacity under a limiting set of circumstances, which predominantly would include sites that have continually underused their capacity, and as a result have restricted others connected to the same area of the network from being able to increase theirs, or new sites from being able to connect, without considerable cost to themselves, and disruption to consumers in relation to reinforcement works.

The criteria in the modification would mean that eligible sites, who hold more than 150% of their maximum peak offtake recorded over a number of years, could be reduced to the 150% figure. This still allows for considerable growth within the site, whilst releasing capacity above this figure back to the network. This should result in other sites in the same area of the network being more likely to have new connection requests or existing capacity increase requests accepted without the need for specific reinforcement and the associated costs.

There is an appeal process in place to allow sites to provide evidence, including expansion plans and works, so that sites that have an evidenced need to hold the capacity for future planned development should not be adversely impacted.

We believe, for areas of limited capacity, that by allowing reductions under very specific sets of circumstances whilst still ensuring that those sites maintain at least 150% of their peak usage, and allowing for more effective demand forecasting, as well as maintenance of the transporters 1 in 20 obligations, furthers Relevant Objectives a) *Efficient and economic operation of the pipe-line system*, and c) *Efficient discharge of the licensee's obligations*. The release of this unused capacity on areas where there is limited capacity available increases the chance of approval of a new connection or capacity increase for other sites on the same area of the network thereby furthering Relevant Objective d) *Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii)*

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Colton, Leeds LS15 8TU



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the network**

between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

Implementation:

What lead-time do you wish to see prior to implementation and why?

This proposal should be implemented upon receipt of approval from Ofgem.

It should be noted that due to the specific annual process timelines specified within the legal text, the 1st notice will need to be sent by 31st May, with any reduction being made during October of the same calendar year. As such, Authority Direction, regardless of when received, will not result in the process not being used until the next 31st May following the direction.

Impacts and Costs:

What analysis, development and ongoing costs would you face?

NGN has sent a separate response, including confidential and commercially sensitive information, directly to Ofgem to support this consultation response.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the Solution?

As proposer, we confirm that the legal text has been written in line with the intent of the modification and will deliver the Solution.

Modification Panel Member Questions:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

The detailed qualification criteria set by the modification, and forming part of the legal text, will continue to restrict the Distribution Networks to only consider proposing a reduction for sites that meet all of the listed criteria. Therefore as future sites will have to be subject to the same criteria and period of assessment, we would expect the eligible site numbers to remain very low, year on year.

Q2: Is the magnitude of the change proportionate to the need?

As proposer we believe the change is proportionate to the need and have submitted confidential and commercially sensitive information separately to Ofgem to support this view.

As specific areas of the network with limited available capacity sometimes have a low number of sites holding the majority of capacity, whilst there is low actual usage, and as a result this prevents a larger number of other sites from either increasing their existing capacity, or new sites from connecting; we believe that the change is proportionate.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

The 0329 Review of Industry Charging and Contractual Arrangements Review groups report notes that 'Ofgem stated that they would welcome any equitable process or incentive capable of driving efficient and effective network investment'. This review group recommendation included *Introduce a requirement for transporters to provide Shippers with details of sites for which the actual SHQ appears to differ from booked, and for Shippers to*

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confirm whether those SHQs are required or should be adjusted (raised by Southern Gas Networks as Modification 0390)'. The analysis in relation to the Supply Point Offtake Reduction Notice process (as introduced by 0390) included in this 0818 modification demonstrates that this process is inefficient and that following the issue of the notices by the DNs, responses are not received from shippers in relation to all of the sites, and where a response is received, in the low instance that it is confirmed that a reduction in capacity is to be made, this rarely actually occurs.

Are there any errors or omissions in this Modification Report that you think should be taken into account?

Include details of any impacts/costs to your organisation that are directly related to this.

None identified.

Please provide below any additional analysis or information to support your representation.

NGN has sent a separate response, including confidential and commercially sensitive information, directly to Ofgem to support this consultation response.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
Market Services Manager (Industry Codes)
Mobile: 07580 215 743

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Service on 0800 111 999



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Colton, Leeds LS15 8TU



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SEFE Energy Representation Draft Modification Report

Modification 0818 - Releasing of unused capacity under a specific set of circumstances

1. **Consultation close out date:** 24th February 2023
2. **Respond to:** enquiries@gasgovernance.co.uk
3. **Organisation:**
SEFE Energy
5th Floor
8 First Street
Manchester
M15 4RP
4. **Representative:**
Steve Mulinganie
Regulation Manager
stevemulinganie@sefe-energy.com
0799 097 2568
5. **Date of Representation:** 16th February 2023
6. **Do you support or oppose Implementation:**
We **Do Not Support** implementation of the Modification

7. **Please summarise (in 1 paragraph) the key reason(s) for your position:**

We welcome the proposer taking on board a number of our comments including limiting its scope e.g. excluding customers who have previously paid for re-enforcement. However **we do not support** the principle of allowing a Distribution Network to unilaterally remove a customer's right to "contingent" capacity particularly where they have previously sought to approach the customer to reduce the level of contingent capacity but have not been successful in persuading the customer to do so.

In the circumstances set out in the modification the customer had been paying for the contingent capacity to be overall benefit of all existing customers. They have then been approached by the Distribution Network via the existing SPOR review process to see if the customer is willing to voluntarily reduce the sites capacity. In such circumstances the customer is made aware of the potential for such a reduction and the financial savings that would arise from doing so.

This enables the customer to determine whether in their opinion the requirement for contingent capacity remains and if not for them to reduce their costs by amending accordingly.

Were the customer has, having been made aware of the voluntary option, and decided that they wish to retain the contingent capacity and continue to pay for its availability. The Distribution Network can, should this modification be approved, then unilaterally remove the contingent capacity that the customer considers is still required and has been and is willing to pay for.

8. Are there any new or additional Issues for the Modification Report:
Yes

The highly targeted nature of this modification suggests that the Proposer is seeking to address a particular set of circumstances and we would question if the use of a code modification is the best way of addressing this particular issue.

The modification includes an appeal process and appeal window however the Business Rules do not set out the basis under which an appeal is valid. In the FMR the following reference is made

Do note also that the Modification includes an appeal process that is intended to enable discussion amongst all parties involved. Hopefully the answers to the other questions posed will give some additional clarity and reassurance around the reason for this Modification and its limited scope

However the legal text refers to specific criteria (see below) however, for traceability, it is not reflected in the Business Rules: -

14.4 Where the Registered User is of the opinion:

- (a) the Supply Point is not an Eligible Supply Point;
- (b) the prevailing Supply Point Offtake Rate and Supply Point Capacity are consistent with the requirement for the future offtake of gas from the System at the Supply Point;
or
- (c) an alternative rate and capacity to that proposed by the Transporter in the T1 Reduction Notice is more consistent with the requirement for the future offtake of gas from the System at the Supply Point,

the Registered User may submit a notice of **appeal** to the Transporter by no later than 31 July in the same year.

As noted above in these cases the Distribution Network will have attempted to reduce the contingent capacity via the SPOR process, and the customer has rejected this route. Therefore we would question if the Distribution Network in an impartial position to consider the appeal particularly in relation to 14.4(b).

9. Self-Governance Statement Do you agree with the status?

Not Applicable

10. Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We **disagree** with the proposer that this modification is positive in respect of Relevant Objective(s) **a, Efficient and economic operation of the pipe-line system and c, Efficient discharge of the licensee's obligations** are furthered due to the actual bookings closer reflecting the usage of the Distribution Network. Thereby allowing for more efficient and accurate modelling and reducing potential risk in maintaining 1 in 20 peak demands. This should thereby decrease the need for unnecessary reinforcement of the network in order to maintain the 1 in 20 positions as required by Gas Transporters Licence Standard Special Condition A9.

We believe if it's true that removing contingent capacity is generally efficient then we would question, why all customers are unable to unilaterally reduce their capacity at any time to enable a more efficient operation of the Network(s).

We do not believe that ability to unilaterally remove a customer right to contingent capacity is fair, efficient or in the spirit of the Licensees obligations.

We believe it cannot be considered efficient if the introduction of unilateral rights to remove contingent capacity discourages customers more broadly from continuing to pay for contingent capacity, to the benefit of all, if it can be subject to removal without their consent.

We believe it could be argued that the new customer who wants to connect should access capacity at a location where capacity is available (not constrained) and this would be better for efficiency, removing any risk of further re-enforcement being needed and maximising the amount of revenue paid for capacity as a whole.

If this modification is implemented and existing customers rights to contingent capacity are unilaterally removed then if that customer wished to use more capacity in line with that which was removed then they would be exposed to re-enforcement costs as a direct result of a new customer being given their capacity.

Because it cannot be efficient to create a regime that incentivises new customers to connect to constrained parts of the Network as opposed to unconstrained areas.

We **disagree** with the proposer that this modification is positive in respect of Relevant Objective(s) **d, Securing of effective competition (i) between relevant shippers** is furthered due to the release of unused capacity in 'restricted' areas, thereby facilitating increased competition by releasing this capacity to be available for other shippers to also request to utilise.

We believe that removing capacity unilaterally from one party to give it to another is not as efficient as allowing a customer to connect in a place where there is no constraint, all other things being equal.

We believe that a new customer who wants to connect should access capacity at a location where capacity is available, and this would be better for competition (driving prices down) since the new customer would pay additional capacity costs, in addition to the contingent capacity payments from the existing customer, thereby increasing overall revenue to the Distribution Network.

11. Impacts & Costs:

What analysis, development and on-going costs would you face if this modification was implemented?

We **have not** identified any significant costs associated with the implementation of this modification

12. Implementation:

What lead times would you wish to see prior to this modification being implemented, and why?

Due to the potential detrimental impacts on some customers we would argue for **implementation to be no earlier than October 2024**

13. Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We **have not** reviewed the Legal Text provided.

14. Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.

Yes

In relation to the Impact of the change on Consumer Benefit Areas:

Lower bills than would otherwise be the case

We believe the value of this to be de minimis. However, if customers can no longer assure themselves of continued access to contingent capacity i.e. that it can be unilaterally removed from them. They may not be incentivised to continue to pay for this “contingent” capacity thus reducing the overall contribution towards capacity charges. This under recovery would have to then be recovered from the rest of the market.

Reduced environmental damage

We believe the assertion that reinforcement works are required is based on the assumption that the party requesting additional capacity is locationally constrained and if not, then no reinforcement may be required, and as a result the use of underutilised capacity elsewhere may be better from an efficiency and environmental standpoint.

Improved Quality of Service

We believe that unilaterally removing a Customer's capacity without their consent would not improve the quality of service to those Customers.

We believe the assertion that reinforcement works are required is based on the assumption that the party requesting additional capacity is locationally constrained and if not, then no reinforcement may be required, and as a result the use of underutilised capacity elsewhere may be better from an efficiency and environmental standpoint.

Benefits for society as a whole

We believe the assertion that reinforcement works are required is based on the assumption that the party requesting additional capacity is locationally constrained and if not, then no reinforcement may be required, and as a result the use of underutilised capacity elsewhere may be better from an efficiency and environmental standpoint.

Representation - Draft Modification Report UNC 0818

Releasing of unused capacity under a specific set of circumstances

Responses invited by: 5pm on 24 February 2023

To: enquiries@gasgovernance.co.uk*Please note submission of your representation confirms your consent for publication/circulation.*

Representative:	David Mitchell
Organisation:	Scotland Gas Networks Ltd & Southern Gas Networks Ltd
Date of Representation:	24 th February 2023
Support or oppose implementation?	Comments
Relevant Objective:	<p>a) None</p> <p>c) /None</p> <p>d) /None</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

SGN understands why this modification has been raised by the proposer and we can sympathise with the arguments for and against this modification.

One area of the modification that may need further consideration are those instances where the sites have a fixed term contract in place with its Shipper for capacity which could be interrupted by this modification. The modification as drafted is silent on how a situation where the site has a contract for the capacity is managed therefore, we believe that further clarity is needed as this will no doubt help deliver the intent of the proposal.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

As this is an Authority direction modification it could be implemented as soon as directed by the Authority subject to any considerations relating to the annual capacity reduction process so that it doesn't create any unintended consequences.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

SGN does not expect any notable additional costs to its business.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We are satisfied that the legal text will deliver the intent of this solution.

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

No comments we could only guess what might happen when a site is identified we suspect that sites may resist surrendering capacity therefore it is likely a dispute may arise.

Q2: Is the magnitude of the change proportionate to the need?

We believe that raising a change to address an issue that is limited to a small number of sites does seem excessive however the proposer on balance probably has no other alternative. If the non-release of capacity results in the need for excessive reinforcement and expenditure to add the necessary capacity to the network then this change becomes a logical step to try and address such a situation however, we would encourage parties to enter into a dialogue to try and come to an agreeable compromise so that the most efficient mechanism is used to address this situation.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

We have some concerns about the proposed mechanism for releasing the capacity we believe that further consideration needs to be given to any valid contracts between the end user and the Shipper for the booked capacity. We are also mindful that the disputes process may need further work to ensure that parties are able to satisfactorily raise disputes and have them appropriately addressed.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

Please see our comments in the opening paragraph of this response.

Please provide below any additional analysis or information to support your representation

None identified.

Representation - Draft Modification Report UNC 0818

Releasing of unused capacity under a specific set of circumstances

Responses invited by: **5pm on 24 February 2023**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Mark Jones
Organisation:	SSE Energy Supply Limited
Date of Representation:	24 February 2023
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) Negative</p> <p>c) Negative</p> <p>d) Negative</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

We are opposed to this modification on the basic principle that if a customer has paid for and continues paying for capacity, they should keep that capacity even if they do not use it for a significant period of time. The DNO can approach a customer directly to discuss a capacity reduction, but if the customer wants to retain the full capacity, they should be able to do so.

Implementation: What lead-time do you wish to see prior to implementation and why?

We do not believe the modification should be implemented. However, if it is then the 3 year period for the monitoring of the use of capacity by a site that falls within the stated criteria should start at the point of implementation of the modification and the transporter should not be able to look back 3 years (or soon after) from the date of implementation. If this is not the case then the modification has an element of retrospection, as sites may have behaved differently knowing that they may lose capacity if they hadn't used it in a 3 year period.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

None identified.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We have not reviewed the legal text.

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

The modification is likely to create a situation where sites use more gas than they need to use just to guarantee keeping the capacity if they believe they will lose capacity due to not using it.

Q2: Is the magnitude of the change proportionate to the need?

No, as whilst the proposer states it will only affect a small number of sites, it will create uncertainty for many Class 1 sites.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

Any reduction should be agreed bilaterally between a DNO and an end-user.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

Please provide below any additional analysis or information to support your representation

The retrospective element of the modification has not been considered as the proposer believes it could be implemented as soon as directed by the Authority. Telling a customer that they are going to lose capacity because they have not used it for the past 3 years (and so can do nothing about it) is likely to have a different impact to telling a customer they will lose capacity if they do not use it in the next 3 years.

Representation - Draft Modification Report UNC 0818

Releasing of unused capacity under a specific set of circumstances

Responses invited by: **5pm on 24 February 2023**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Louise Hellyer
Organisation:	TotalEnergies Gas & Power
Date of Representation:	27 February 2023
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) None</p> <p>c) None</p> <p>d) None</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

We are concerned about the impacts of this modification on to the end customer, as well as the precedent it sets. If conversations have been unfruitful for reductions to occur at certain sites, we must assume the customers are happy to pay for the capacity they have. It therefore seems penal to unilaterally remove this from customers. Particularly when this is only in cases where the transporter is then going to offer the capacity to others, not also where they believe the customer is over paying and no one else wants the capacity. They are not applying it consistently but only to those where they see it as a benefit to them/new customers. It does not feel that they have all end consumers best interests at heart.

We unsure why category A sites are carved out. Why is Priority type A different to B/C it feels it should at least be consistent for all Priority Supply Points. Is there a justified reason why a Priority site can over pay for unused capacity vs a "normal site"?

Implementation: *What lead-time do you wish to see prior to implementation and why?*

If this were to be implemented, we would expect to see at least a full capacity reduction period prior to implementation. This would be to allow Customers to adjust capacities for

sites should they wish to in a more controlled manner. As the modification would not protect any sites against an unexpected reduction all may well want to review capacities.

We are aware there are some sites identified already for this new process. We would also expect a full list of those identified sites clearly communicated before the start of that capacity reduction period before implementation.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

We would expect the impact to current customers to be negative, changes to quick to contractual arrangements they have in place, which are not well targeted, and hard for shippers to identify sites (due to the “network constraint element”).

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Not reviewed

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

We are concerned about how this will impact customer experience, particularly linked to the 30 calendar day window for the process, It seem a short time to ensure the customer is fully aware of the implications and has adequate time to assess impacts to them and respond. The shippers are the middleman implementing something for others, a contact at Networks the customer can speak to directly on this process should they wish might be very helpful. It is the Network picking and choosing sites but generally customers don't understand this distinction when contacted by shipper/supplier.

Q2: Is the magnitude of the change proportionate to the need?

It seems likely this could be addressed better in another way. It is a very blunt tool, with nothing but pain for the customer. We do not agree it will avoid unnecessary reinforcement works as the customer is happy paying for this and may therefore be expecting to use it at a future date, which would mean the reinforcement would be needed either now or later. It is just a question who ends up having to pay for it and in this proposed model the current customer would have to pay to get back something they had taken away from them.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

No Comment

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

N/A

Please provide below any additional analysis or information to support your representation

N/A

Representation - Draft Modification Report UNC 0818

Releasing of unused capacity under a specific set of circumstances

Responses invited by: 5pm on 24 February 2023

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Tom Stuart
Organisation:	Wales & West Utilities
Date of Representation:	
Support or oppose implementation?	Support
Relevant Objective:	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Wales & West Utilities agrees that this modification is an efficient option to allocate capacity to other users in an area of the network where the system is constrained. We therefore believe this modification furthers relevant objective:

- a) Efficient and economic operation of the pipe-line system,
- c) Efficient discharge of the licensee's obligations, and
- 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

Implementation: *What lead-time do you wish to see prior to implementation and why?*

The modification should be implemented as soon as reasonably practicable following direction from the authority.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

We do not foresee any cost impacts related to this modification.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have comments on the Modification's impact on sites that may be identified in the future?

The rules that must be satisfied for the process in this proposal to apply are tightly defined and the number of sites to which this process may be applied in the future will be extremely small.

Q2: Is the magnitude of the change proportionate to the need?

We recognise the concerns raised by Shippers in relation to transporters being able to remove capacity from Shippers; however, if capacity is booked but there is no realistic likelihood of it being used then it cannot be regarded as efficient use of the network. Such capacity blocking may prevent others from connecting to that part of the network as they are faced with paying for reinforcement even though in reality it will not be needed.

Q3: Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?

The process for reducing the capacity does contain a number of controls and safeguards as outlined in the solution and we think that these should provide sufficient safeguards for customers in the extremely low numbers of cases where its use may be considered.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No

Please provide below any additional analysis or information to support your representation

None