

UNC Modification	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="1209 309 1468 629"> <div data-bbox="1209 309 1468 383">01 Modification</div> <div data-bbox="1209 383 1468 456">02 Workgroup Report</div> <div data-bbox="1209 456 1468 530">03 Draft Modification Report</div> <div data-bbox="1209 530 1468 629">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></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.</p>	
<p><b>Next Steps:</b></p> <p>The Proposer recommends that this Modification should be: Considered a material change and not subject to Self-Governance</p> <p>This Modification will be presented by the Proposer to the Panel on 15 September 2022. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
<p><b>Impacted Parties:</b></p> <p>High: Shippers, Distribution Network Operators, Some I&amp;C consumers Low: Suppliers None: NTS, IGTs</p>	
<p><b>Impacted Codes:</b></p> <p>No other code impacts are identified (IGT CSEPs will be out of scope of this modification).</p>	

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Timetable		
<b>Modification timetable:</b>		 0121 288 2107
Pre-Modification Discussed ( <i>distribution</i> )	28 Jul 2022	Proposer: <b>Tracey Saunders</b> <b>Northern Gas Networks</b>
Date Modification Raised	16 Aug 2022	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
New Modification to be considered by Panel	15 Sep 2022	 07580 215743
First Workgroup Meeting	22 Sep 2022	 <a href="mailto:trsaunders@northernngas.co.uk">trsaunders@northernngas.co.uk</a>
Workgroup Report to be presented to Panel	19 Jan 2023	 07580 215743
Draft Modification Report issued for consultation	20 Jan 2023	 <a href="mailto:trsaunders@northernngas.co.uk">trsaunders@northernngas.co.uk</a>
Consultation Close-out for representations	10 Feb 2023	 07580 215743
Final Modification Report available for Panel	12 Mar 2023	Systems Provider: <b>Xoserve</b>
Modification Panel decision	19 Mar 2023	 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
		Other: <b>Insert name</b>
		 email address
		 telephone

# 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

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 A9<sup>1</sup> (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.

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.

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<sup>1</sup> <https://epr.ofgem.gov.uk/Document>

## 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).

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 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).

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 to 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).

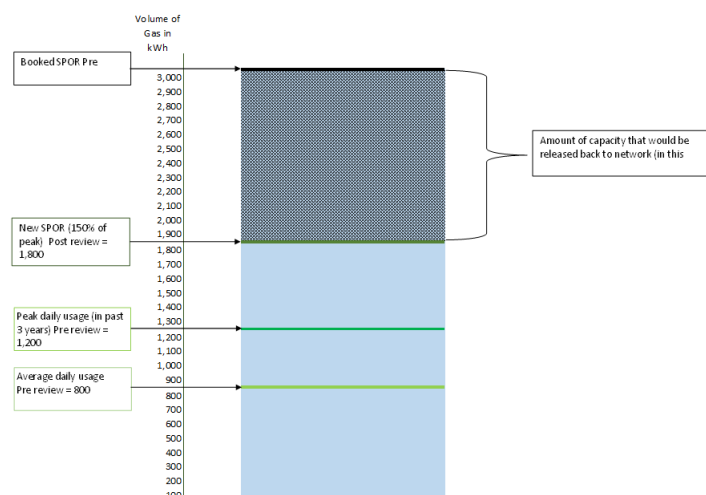
Once a Site has been identified and its SOQ reduction has been successfully completed, the site will be subject to standard UNC rules, and may seek to increase, or decrease its capacity accordingly.

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 A9<sup>1</sup> 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) 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).
- 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 reduction date: CDSP carries out 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 the Transporter Nominated Capacity Reduction Backstop Date)

## 6 Impacts & Other Considerations

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

No, at the point of raising this modification, the current SCRs should be implemented and closed.



## Consumer Impacts

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.

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

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
<p><b>Improved safety and reliability</b></p> <p>This should remove any artificial constraint and therefore improve security of supply</p>	Positive
<p><b>Lower bills than would otherwise be the case</b></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
<p><b>Reduced environmental damage</b></p> <p>Potentially reducing the need for reinforcement works, which can have an impact on the environment, both by the works themselves, and by the usage of plastics (pipes).</p>	Positive

<p><b>Improved quality of service</b></p> <p>Potentially reducing the need for Sites, who meet the criteria as stated in Gas Transporter Licence Condition 4b Connections Charging Methodology Statement<sup>2</sup>, 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>	Positive
<p><b>Benefits for society as a whole</b></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>	Positive

## 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

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

## 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.

## 8 Implementation

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

## 9 Legal Text

### Text Commentary

To be provided.

### Text

To be provided.

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply.
- Refer this proposal to a Workgroup for assessment.