

CODE REVIEW PROPOSAL No 0329
Review of Industry Charging and Contractual Arrangements – DM Supply Point
Offtake Rates (shqs) and DM Supply Point Capacity (soqs)
Version 1.0

Date: 11/08/2010

1 Nature and Purpose of Proposal

Background

In March 2010 Ofgem published their decision letter detailing the outcome of Scotland Gas Networks' (ScGN) application to re-open the current Gas Distribution Price Control. In light of an additional capital expenditure requirement to facilitate network re-enforcement projects resulting from UNC Modification Proposal 090, 'Interruption Reform', the Ofgem decision letter provided an approval to an adjustment of the interruption incentive allowance to take into consideration specific re-enforcement projects.

Although ScGN were permitted additional capital allowances Ofgem detailed within their decision letter certain concerns relating to the current incentives placed upon Shipper Users to provide Supply Point Offtake Rate (SPOR) values (more commonly referred to as supply hourly quantity or shq) to the Transporters which are representative of their usage. The decision letter also specified that Gas Distribution Network Operators (GDNs) should instigate a Review Process to consider if changes should be made to incentivise customers to consider their SPOR usage levels. In addition Ofgem suggested that current customer capacity charges were broadly independent of their contracted SPOR even where the contracted SPOR may require GDNS to incur additional cost in meeting these requirements.

To meet the objectives detailed in Ofgem's decision letter ScGN have raised this UNC Review Proposal to consider the issues raised and ultimately to determine whether any modifications are required to the UNC to rectify any disincentives in this area. To ensure all gas industry participants' views are included in this process ScGN would encourage the active involvement of not only Shipper Users and Transporters but also End User consumer representatives.

Nature of Proposal

It is ScGN's intention that this Review Proposal considers the UNC arrangements for the provision of Supply Point Capacity and Supply Point Offtake Rates by Shipper Users to DNs for all Daily Metered Supply Points. For clarity it is not envisaged this Review Proposal will cover arrangements for Supply Points connected to the National Transmission System although this would not rule out an analysis of current NTS arrangements in relation to DN connected DM sites. In addition to the comments made within the Ofgem decision letter regarding the incentives on Shippers to provide reflective SPORs, ScGN also consider that it would be appropriate to include and focus on the enduring arrangements associated with the setting of minimum and

maximum off take rates, specifically with reference to the reduction of and increase of such rates. Following the implementation of UNC Modification Proposal 0275 in December 2009, which provided a temporary mechanism to allow flexibility in capacity booking for DM sites, Ofgem specified any enduring solution would require further analysis and comprehensive review. As any arrangements associated with extending such a regime would impact on a Supply Point's SPOR and SPC, ScGN consider it would be appropriate to include these elements in this UNC Review.

It is proposed that the UNC Review group considers the following areas within its remit:

- Impact on DN investment decisions resulting from the current and any future SPOR/SPC nomination process.
- Potential changes to UNC rules governing the setting of Supply Point Offtake Rates and Supply Point Capacity to incentivise Users to provide actual required usage volumes (to include a review of the Supply Point Ratchet regime)
- Impact on DN Transportation charges and recovery of such charges in relation to any changes to the SPOR / SPC regime.
- Potential changes to the current process establishing the dynamic between the Supply Point Offtake Rate and the Supply Point Capacity, specifically the rule specified in UNC TPD Section G 5.4.1 (SPC = 24 x or 4 x the SPOR).
- The process for reducing both the Supply Point Offtake Rate and the Supply Point Capacity.
- The process for increasing both the Supply Point Offtake Rate and the Supply Point Capacity rate.
- Direct impact on end users of any changes.
- Monitoring accuracy of SPORs and SPCs on an ongoing basis.
- Safety issues in relation to Users exceeding SPORs and incentives to minimise any such occurrence.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

Not classified as User Pays. This proposal will not create or change any user pays services.

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

N/A

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

N/A

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

N/A

3 Any further information (Optional)

Suggested Aims and Outputs of the Review Group.

It is suggested that the outputs from this Review Group would produce a report detailing any changes required to the Supply Point capacity regime in relation to DN DM sites to ensure SPORs are representative of Shipper / End User requirements. It is recommended that the Review Group should spend a period of 6 months to discuss and recommend any changes in relation to the remit detailed above.

4 Code Concerned, sections and paragraphs

- a) Uniform Network Code
- b) Transportation Principal Document

Section(s) TPD B4.7, G5

Proposer's Representative

Joel Martin, Scotland Gas Networks

Proposer

Joel Martin, Scotland Gas Networks