













UNC Draft Modification Report	At what stage is this document in the process?
<h1>UNC 0696V:</h1> <h2>Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NExAs</h2>	<div> <div>01</div> <div>Modification</div> </div> <div> <div>02</div> <div>Workgroup Report</div> </div> <div> <div>03</div> <div>Draft Modification Report</div> </div> <div> <div>04</div> <div>Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>To the extent to which a Consumer has entered into a bi-lateral Network Exit Agreement (NExA) with the relevant Transporter then any new or additional capacity charging should only apply from the relevant date set out in the NExA.</p>	
	<p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this self-governance modification.</p> <p>The close-out date for responses is 15 May 2020, which should be sent to enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at: https://www.gasgovernance.co.uk/0696.</p> <p>The Panel will consider the responses and agree whether or not this modification should be made.</p>
	<p>High Impact:</p> <p>Transporters, Shippers and Consumers</p>
	<p>Medium Impact:</p>
	<p>Low Impact:</p>

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Timetable		 0121 288 2107
Modification timetable:		Proposer: Steve Mullinganie Gazprom Energy
Initial consideration by Workgroup	27 June 2019	 enquiries@gasgovernance.co.uk
Workgroup Report presented to Panel	18 July 2019	 Steve.mullinganie@gazprom-energy.com
Draft Modification Report issued for consultation	18 July 2019	 0799 0972568
Consultation Close-out for representations	08 August 2019	Transporter: Wales & West Utilities
Final Modification Report available for Panel	12 August 2019	 richard.pomroy@wwutilities.co.uk
Modification Panel decision	15 August 2019 (<i>at short notice</i>)	 0773 151572
Receipt of Ofgem's 'Send Back Letter' ¹	13 November 2019	Systems Provider: Xoserve
First Reconsideration of Proposal at Workgroup	28 November 2019	 UKLink@xoserve.com
Variation Request submitted by Proposer	21 February 2020	
Variation Request presented to Panel (immaterial)	19 March 2020	
Workgroup Report presented to Panel	16 April 2020	
Draft Modification Report issued for consultation	16 April 2020	
Consultation Close-out for representations	15 May 2020	
Final Modification Report available for Panel	18 May 2020	
Modification Panel decision	21 May 2020 (<i>at short notice</i>)	

¹ [Ofgem letter, dated 12 November 2019, entitled "Authority decision to send back Uniform Network Code \("UNC"\) 696 \("UNC696"\):](#)
["Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NEXAs"](#)

1 Summary

What

An inequity has been identified between the arrangements for capacity as set out in the NExA which is a bilateral agreement between the Transporter and the Consumer and the UNC which is an agreement between the Shippers and Transporters.

Context

An example of the issues identified in this Modification is set out in Section 3 and provides the context for the proposed changes to the UNC.

Why

If the change is not made, then relevant Consumers will continue to be at risk of incurring charges under the UNC whilst being prohibited from benefiting from the new or additional capacity under the terms of the NExA.

How

It is proposed that any new or additional capacity requested for DM Supply Points under the UNC should only take effect from the date set out in the NExA. This process would not apply to NTS Supply Points.

2 Governance

Justification for Authority Direction

As the proposal has a material impact on the Transportation arrangements for Shippers and relevant consumers and proposes a limited element of retrospection, it should, we believe, be subject to **Authority Direction**.

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- following further Workgroup review and development, in accordance with the recommendations in Ofgem's letter¹, ("the send back letter"), be submitted to Panel with a recommendation that it proceeds to consultation

3 Why Change?

Issue

An inequity has been identified between the arrangements for Capacity as set out in the Network Exit Agreement (NExA) which is a bilateral agreement between the relevant Transporter and the relevant Consumer and the Uniform Network Code (UNC) which is an agreement between Shippers and Transporters. Following discussions with the relevant Transporter who are the only party to both sets of arrangements we have identified an inequity in the current arrangements which needs to be addressed to

enable an equitable outcome for the Consumer and to avoid similar occurrences of Consumer detriment in the future.

Background

Customer A entered into arrangements to increase Capacity at one of their sites with Transporter B.

As the site is a major industrial site (Class 1) this involved considerable effort both in the form of resources, surveys, undertakings, and negotiation between Customer A and Transporter B. Due to this complexity the date that additional gas was required to be available was dynamic in nature.

Customer A was already subject to a NExA with Transporter B.

Transporter B and Customer A finally agreed bilaterally that the additional gas should be available for offtake from 1st December 2018 and a variation to the existing NExA was issued to the customer to this effect.

However, during the project, prior to the variation to the NExA being finalised, a Capacity increase was proceeded by Shipper C (in this case the current Shipper) for a date prior to the 1st December 2018. This was due to both the dynamic nature of the project and pressure to ensure Capacity was available in a timely manner and to avoid the risk of ratchet charges being applied by Transporter B under the UNC i.e. if the site was to use the increased capacity prior to a capacity increase being approved the site would have been subject to penal Ratchet charges.

This capacity increase request was referred to Transporter B.

Despite Transporter B being party to the terms of the revised NExA negotiations and thus aware that this only allowed for offtake from 1st December the referral was accepted for a date prior to the 1st December and the increase registered prior to the 1st December 2018.

This has led to the Customer being charged hundreds of thousands of pounds for additional Capacity that they were prohibited, under the terms of the NExA, from taking prior to the 1st December.

For the avoidance of doubt detailed discussions have taken place to seek to address this matter. However, it has been noted that the current drafting in the UNC needs to be amended to enable an equitable resolution.

This proposal would ensure that Shippers and Customers are not subject to this unfair charging risk in future and would also seek to recover the costs unfairly levied against Shipper C and Customer A i.e. the proposal has a limited degree of retrospection. For the avoidance of doubt this solution will be enduring so preventing this issue from occurring in the future.

Retrospective Arrangements

Ofgem currently applies a number of tests regarding retrospection:

- a situation where the fault or error giving rise to additional [material] costs or losses was directly attributable to central arrangements,
- combinations of circumstances that could not have been reasonably foreseen; or
- where the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

This issue meets all of these tests, in that restriction in LDZ Capacity becoming available has resulted owing to mismatches in central system processes and processes operated by the Gas Transporters (NExAs). It could not be reasonable foreseen at the time when these discussions were being undertaken to increase capacity that such a mismatch would be allowed to occur by the Gas Transporters.

The impact of retrospection would be simply to refund the capacity payments made by the Gas Shipper for the affected meter points. These additional costs come out of allowed revenue, so there will be a minimal impact to the rest of the market as the refund will be spread across the whole DN.

4 Code Specific Matters

Reference Documents

Link to: [UNC TPD Section G](#)

Link to: [UNC TPD Section J](#)

Network Exit Agreement (NExA) – Extract relating to issues raised in this Proposal

PART 1 - GENERAL

1. APPLICATION OF SECTION J4 AND J5

1.1 Sections J4 and J5 shall apply as applicable in respect of the Supply Meter Point on the basis that references to:

- (I) Supply Point Network Exit Provisions or Network Exit Agreement;
- (II) a Supply Meter Point (including a NExA Supply Meter Point);
- (III) the consumer;
- (IV) the Prevailing Offtake Rate;
- (V) the Registered User or Sharing Registered Users

shall be construed respectively as references to:

- (VI) this Agreement;
- (VII) the Supply Meter Point;
- (VIII) the Operator;
- (IX) the maximum permitted aggregate rate of offtake specified in Annex A paragraph 1.1 of Part II.
- (X) the Relevant Shippers jointly.

2. RATE OF OFFTAKE

References in this Annex to rates of offtake of gas are to the instantaneous rate (expressed in kWh's) of offtake of gas from the System at the Supply Meter Point.

5 Solution

Solution

It is proposed that any new or additional capacity for DM Supply Points (excluding NTS Supply Points), that is Class 1 or Class 2 Supply Meter Points, requested under the UNC should only take effect from the date set out in the NExA.

Business Rule 1 (BR1)

Any requests for new or additional capacity for DM Supply Points (excluding NTS Supply Points) shall, where a relevant NEXA exists, only take effect from the relevant date set out in the NEXA.

Business Rule 2 (BR2)

This change would be effective from 1st September 2018, with the CDSP correcting any capacity charges for sites identified by a Shipper as having been affected by the mismatch in NEXA and UNC capacity booking processes.

Business Rule 3 (BR3)

In the event of a Ratchet occurring that exceeds the SOQ as set out in the NExA then the PMSOQ will not increase in line with normal practice. Instead the PMSOQ will be capped in line with the SOQ set out in the NExA. In such circumstances the Ratchet charge will be based on the SOQ that caused the Ratchet to occur. If in the relevant billing period (as set out in B4.7.13) a subsequent Ratchet occurs, then any Ratchet Charge will not include any charges that have already been incurred under the previous Ratchet.

For example:

1. SP1's SOQ is currently 90
2. SP1 uses 120 on Day X and Ratchets
3. This exceeds the SOQ set out in the NExA for SP1 of 100
4. The PMSOQ will not exceed 100, as set out in the NExA
5. A Ratchet charge will be based on 120
6. SP1's SOQ is currently 100
7. SP1 uses 110 on Day Y and Ratchets
8. This exceeds the SOQ set out in the NExA for SP1 of 100
9. The PMSOQ will not exceed 100, as set out in the NExA
10. A Ratchet charge will not be applied as the Shipper has already been charged for 120

6 Impacts & Other Considerations

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

None

Consumer Impacts

Impacts consumers who are party to NExA arrangements and wish to amend their capacity requirements.

Consumer Impact Assessment

(Workgroup assessment of proposer initial view or subsequent information)

Criteria	Extent of Impact
Which Consumer groups are affected?	<ul style="list-style-type: none"> Domestic Consumers Small non-domestic Consumers Large non-domestic Consumers Very Large Consumers
What costs or benefits will pass through to them?	No implementation costs would transfer directly to the consumer.
When will these costs/benefits impact upon consumers?	Benefits would arise due to an assurance that any capacity booked would be capped and aligned with the NExA, and if the Supply point exceeds the capacity set out in the NExA, a degree of capping of Ratchet Charges would be applied.
Are there any other Consumer Impacts?	None
General Market Assumptions as at December 2016 <i>(to underpin the Costs analysis)</i>	
<i>Number of Domestic consumers</i>	<i>21 million</i>
<i>Number of non-domestic consumers <73,200 kWh/annum</i>	<i>500,000</i>
<i>Number of consumers between 73,200 and 732,000 kWh/annum</i>	<i>250,000</i>
<i>Number of very large consumers >732,000 kWh/annum</i>	<i>26,000</i>

Cross Code Impacts

There should be no known impacts on other Codes

EU Code Impacts

None

Central Systems Impacts

Initially, as Modification 0696 was restricted to specific event, and since there only a limited number of Supply Points where NExAs exist, logically the circumstances envisaged by the proposal could only occur on very small number of occasions. As such, the view of the Workgroup was that any refunds of excess capacity charges could, and should, have simply been processed by way of a manual workaround type solution.

Since receipt of the send-back letter, and following further development discussions at the Workgroup, Modification 0696V has been raised to address a further specific issue regarding the treatment of Capacity Ratchet Charges being incurred while the Supply Point Capacity (SOQ) was effectively capped at the daily capacity value set-out in the NExA.

The view of the Workgroup, and the CDSP, was that this element created a degree of complexity above that of Proposal 0696, and that a semi-systematised solution should be developed

As part of the further Workgroup, this has now been developed and a UK-LINK change, specified in ROM: [XRN 5096](#) has been specified as part of the implementation plan.

The business rules set out in the ROM are detailed below:

For NExA sites the PMSOQ should not exceed the NExA daily capacity confirmed by the Transporter.

1. New or enhanced internal screen for Xoserve business users to update the PMSOQ for any site to a configurable user input value
2. Where the PMSOQ has been set through Xoserve via the internal screen, this should remain the PMSOQ and override the current calculation to obtain the PMSOQ (2 times the SOQ or 16 times the SHQ)
3. The screen should allow Xoserve business users to update the PMSOQ for any site, at anytime
4. Data cleanse/migration activity required to ensure that no NExA sites have a higher PMSOQ than the NExA daily capacity value which will be provided by Transporters.

Rough Order of Magnitude

The following cost statement has been extracted from ROM: Change Reference Number: 5096

An enduring solution will cost at least **£29,000**, but probably not more than **£47,000** to implement.

Workgroup Impact Assessment

Since receipt of the send-back letter in November, the Workgroup has met on 5 occasions with two principal objectives:

1. To expand and enhance the Workgroup Report to cover the Authority's additional request for detail and clarity, as specified in the letter, principally:
 - a. Clarification of the current capacity booking arrangements, as set out in UNC TPD Section G and Section J, (Set out in Section 11.1)
 - b. Detail on the deficiencies in the current arrangements, (Set out in Section 11.3)
 - c. Review of impact on central systems, processes and procedures, (Set out in Section 6)
 - d. Review and Assessment of the legal text, (Set out in Section 9)
2. To develop and provide a solution around the treatment of Capacity and Capacity Ratchet Charges occurring during a period where the NExA daily capacity value was the controlling factor for setting the Supply Point Capacity, identified as a concern during discussions held in Workgroup meetings held post receipt of the send-back letter.

In terms of item 2, discussion of possible enhancements to the rules commenced at the November Workgroup, with comparisons made between the way that PMSOQ caps Registered Supply Point Capacity following a ratchet and the way a NExA daily capacity value would effectively cap any the SOQ. Consideration was given to this point and Xoserve actioned to provide scenarios.

At the December meeting, following consideration of the Scenarios, it was agreed that the Proposal should be amended to account for instances where the daily offtake at a Supply Point exceeded the daily capacity value set-out in the NExA.

Following consideration of the scenarios, the view of the Workgroup was that the Solution, Legal Text, System Changes and Implementation requirements would need to change. Consequently:

1. Business Rule 3, (BR3), has been added to the Solution to ensure that the daily capacity value set out in the NExA would cap SOQ in the event of a ratchet, and also sets out the treatment of any associated ratchet charges
2. An amended version of the text has been provided by WWU for consideration at the March Workgroup
3. A ROM has been provided to provide semi-automated "set and reset" functionality for capacity values amended by the circumstance set-out in BR3.

For clarity, it was pointed out at the Workgroup that the refund of any charges would still be undertaken as a manual activity.

Meetings held during 2020 have been spent resolving the detail and method of implementation for BR3, (in anticipation of a Variation Request), and reviewing the legal text.

The workgroup is of the opinion, following the amendment to the Proposal, and introduction of the system changes, the solution, as documented, is sufficiently developed to proceed to a further phase of consultation.

When asked, the Workgroup declined to comment further on the retrospective element of the proposal, suggesting that it was a matter best left to respondents to set out their views in their representations.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
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.	None
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.	Positive
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

The following Relevant Objectives would be furthered by implementation:

Relevant Objective c) because it better aligns the commercial and operational arrangements at a Supply Point and assists with the efficient management of the capacity requirements on the network.

Relevant Objective f) because removes ambiguity & provides clarity for all affected parties, allowing each to better understand the capacity arrangement in place, where a NExA is in force.

8 Implementation

Timescale

The high-level estimate to develop and deliver this change is approximately 16 weeks and includes 2 weeks of Post Implementation Support.

It was noted by the Workgroup that the delivery of the associated system change would need to be assessed and progressed through DSC governance and scheduled into a suitable release.

9 Legal Text

Legal drafting note: This legal text in this report has been provided by WWU. and has been specifically written to accommodate the solution set out this proposal,

While the issues addressed herein are similar to those in Modification Proposal 0701, the legal text for each of these related proposals is specific to its respective solution and, accordingly, the text in the two reports should be assessed individually.

The Workgroup has considered the legal text as part of the production of this report and is satisfied that it meets the intent of the Solution.

Legal Text Commentary

Sections B3.12.10(a) and B4.6.8(c) are amended so that NTS Exit (Flat) Commodity Charges and the LDZ Optional Capacity Rate (if ever relevant) would reflect the changes to Sections G5.1.5 and G5.4.5 discussed below. For the purposes of Sections B3.12.10(a) and B4.6.8(c)(ii), the Shared Supply Meter Points procedures published by the CDSP pursuant to Section G1.7.17 may need to be revised.

The effect of the insertion of the additional restriction at Section G5.1.5(c) is that any application for an increase in capacity at an LDZ Supply Point which specifies a higher rate of offtake than that permitted in the NExA, may only take effect from the date on which the NExA is amended so as to permit such increase. Consequently, any changes to limitations imposed by relevant NExAs on the maximum rate of offtake and the effective date of such changes will need to be notified by Transporters to the CDSP.

The effect of the new Section G5.4.5 is to limit the permitted Supply Point Capacity at any LDZ Supply Point by reference to any maximum offtake rate limit specified in the NExA. It would be preferable to recognise the NExA's role in imposing such limitations by including express provision for it in section J 4.3 or J5.4, though the catch-all provision at J 4.3.2(c) already covers it. Section G 5.4.4 has been amended so that the new rule applies as appropriate to Shared Supply Points.

The definition of "Provisional Maximum Supply Point Capacity" at 5.5.2 is changed so that it is limited to the maximum level of offtake permitted by the NExA if that is a lower level of offtake than currently provided for by paragraph 5.5.2. Consequently, in cases of LDZ DM Supply Points with NExAs, where the offtake exceeds the daily limit specified in the NExA, Section B7.4.3 will, as required by Business Rule 3 of the Modification Proposal, result in a Supply Point Ratchet Charge in respect of a Billing Period calculated by reference to the greatest amount by which the daily offtake limit in the NExA is exceeded in that Billing Period. Sections 5.5.3 and 5.5.4 will be affected by the change in the definition of Provisional Maximum Supply Point Capacity in that, if a Supply Point Nomination or Capacity Revision Application is made which specifies a Supply Point Capacity exceeding the daily offtake limit specified in the NExA for such a Supply Point, the Transporter will be required to determine the feasibility of making the capacity available, and, if it is feasible, required to accept the Nomination or Application. However, thanks to the

new Section G5.1.5(c), the nomination or application will only become effective on the date on which the limit in the NExA is increased.

Section G5.5.5 has been changed so that for any LDZ DM Supply Point the Ratchetted Supply Point Capacity (as provided for by Section B4.7.3, which is subject to G5.5.5) is limited to the daily offtake limit specified in the NExA (if any) for such a Supply Point. A correction has been made to the first part of this provision by removing the words “the CDSP will inform the Transporter”. Some form of change is necessary for G5.5.5 to make sense and the deletion mirrors the wording of the equivalent provision in the version of Section G in Annex 1 to Transition Document Part IIC.

The Transition Document Part IIC has been amended so that where, after 1 September 2018 but before implementation of the Modification Proposal, the Supply Point Capacity was increased above the maximum daily offtake rate permitted by a NExA (whether as a result of an application to increase the capacity or a Supply Point Confirmation), the Supply Point Capacity shall be treated as being equal to that maximum daily offtake rate until such point as the NExA provides for a maximum daily offtake rate to apply which is equal to or greater than the Supply Point Capacity as so increased or confirmed.

It has been assumed that the SSMP Transitional Phase has completed and that Annex 1 to Transition Document Part IIC is redundant so there is no need to change it.

Legal Text

Transportation Principal Document

SECTION B – SYSTEM USE AND CAPACITY

In paragraph 3.12.10(a) delete “Section G5.4.1” and replace it with “Sections G5.4.1 and G5.4.5”

In paragraph 4.6.8(c) delete “Section G5.4.1” and replace it with “Sections G5.4.1 and G5.4.5”

SECTION G – SUPPLY POINTS

Replace paragraph 5.1.5 with the following new paragraph 5.1.5:

“5.1.5 The date under paragraph 5.1.4(d) shall be:

- (a) 5 Supply Point Systems Business Days after the date upon which the application is submitted, subject to paragraphs (b) and/or (c) below; or
- (b) where it will (in accordance with paragraph 5.5) be necessary for the Transporter to assess the feasibility of making gas available for offtake, 21 Supply Point Systems Business Days after the date upon which the application is submitted; or
- (c) in the case of a NExA Supply Meter Point which is an LDZ Supply Meter Point, where the revised Supply Point Capacity specified in accordance with paragraph 5.1.4(c) exceeds any maximum daily rate of offtake specified in the Network Exit Agreement, the date with effect from which the Network Exit Agreement is amended so that such maximum rate of offtake is no less than the revised Supply Point Capacity so specified.”

At the end of paragraphs 5.4.2 and 5.4.3 insert “or 5.4.5” immediately before the final full stop.

In paragraph 5.4.4 delete the words “in paragraph 5.4.1” and replace them with “in paragraphs 5.4.1 and 5.4.5”.

Insert the following new paragraph 5.4.5:

- “5.4.5 A User's Supply Point Capacity in respect of a NExA Supply Meter Point which is an LDZ Supply Meter Point (including any proposed LDZ Supply Point) at any time shall be no greater than any maximum daily rate of offtake specified in the Network Exit Agreement in respect of such time.”

Replace paragraph 5.5.2 with the following new paragraph 5.5.2:

- “5.5.2 The “Provisional Maximum Supply Point Capacity” in respect of a DM Supply Point (other than a Proposed Supply Point which comprises a New Supply Meter Point and other than an NTS Supply Point) is whichever is the lesser of:
- (a) 2 times the Prevailing Supply Point Capacity;
 - (b) 16 times the Supply Point Offtake Rate or (in the case of a Proposed Supply Point) Nominated Supply Point Offtake Rate; and
 - (c) the maximum daily rate of offtake (howsoever expressed) specified in the Network Exit Agreement in respect of such DM Supply Point.”

Replace paragraph 5.5.5 with the following new paragraph 5.5.5:

- “5.5.5 Where, following the occurrence of a Supply Point Ratchet in relation to a DM Supply Point, the sum of the Capacity Ratchet Amount and the User's Registered Supply Point Capacity would exceed the Provisional Maximum Supply Point Capacity:
- (a) with effect from the following Day, and until the Transporter has assessed whether it is feasible to make available gas for offtake (in a 24 hour period) in the amount of such sum, the Ratchetted Supply Point Capacity shall be equal to the Provisional Maximum Supply Point Capacity;
 - (b) with effect from the time at which the Transporter has assessed such feasibility and notified the CDSP, the Ratchetted Supply Point Capacity shall be equal to the lesser of:
 - (i) the Maximum Supply Point Capacity or, where such Maximum Supply Point Capacity exceeds the prevailing maximum daily rate of offtake (howsoever expressed) specified in the Network Exit Agreement (if any) in respect of an LDZ DM Supply Point, such maximum daily rate; and
 - (ii) the sum of the User's Registered Supply Point Capacity (immediately before the Supply Point Ratchet) and the Capacity Ratchet Amount; and
- the CDSP will inform the Registered User of the Ratchetted Supply Point Capacity determined under paragraph (b) as soon as reasonably practicable after such feasibility was assessed by the Transporter and notified to the CDSP.”

Transition Document Part IIC

1 - UNIFORM NETWORK CODE

Insert the following new paragraphs 1.17.13 and 1.17.14:

- “1.17.13 Where a Capacity Revision Application has been made in respect of a NExA Supply Meter Point which is an LDZ Supply Meter Point and, as a consequence of such application, the Supply Point Capacity became, with effect from a date between 1

September 2018 and the implementation date of Modification Proposal 0696V, greater than any maximum daily rate of offtake specified in the Network Exit Agreement, such increase in Supply Point Capacity shall be deemed not to have come into effect until the date with effect from which the Network Exit Agreement is amended so that such maximum rate of offtake is equal to or greater than the Supply Point Capacity which, but for this paragraph 1.17.13, would otherwise have applied. `1.17.14 Where a Supply Point Confirmation in respect of a NExA Supply Meter Point which is an LDZ Supply Meter Point came into effect on a date between 1 September 2018 and the implementation date of Modification Proposal 0696V, and, as a result of such Supply Point Confirmation, the Supply Point Capacity of such NExA Supply Meter Point became greater than the maximum daily rate of offtake specified in the relevant Network Exit Agreement, then the Supply Point Capacity of such Supply Meter Point shall be deemed to be equal to such maximum daily rate of offtake from the date on which the Supply Point Confirmation became effective until the date with effect from which the Network Exit Agreement is or was amended so as to specify a maximum daily offtake rate which is no less than the Supply Point Capacity specified in such Supply Point Confirmation (at which point the Supply Point Capacity shall increase to the amount which, but for this paragraph 1.17.14, would otherwise have applied).”

10 Recommendations

Panel’s Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this modification.

11 Supplementary Information

Following the receipt of the send back letter, which set out the Authority's decision to "send-back the proposal back to industry for further discussion at Workgroups and revision", this report has been produced address the matters set-out in the letter as requiring more detail and information as to why a modification to the UNC should be made.

11.1 Overview of the current arrangements, such as they relate to capacity booking and NExAs

Synopsis of Procedures & Responsibilities

This synopsis should be read in conjunction with Section G5 and Section J of the UNC, and in the event the two documents do not strictly align, the UNC TPD has primacy.

Section G - Supply Point Capacity

The principal underlying the basis for booking capacity at LDZ DM, (Class 1 & Class 2), Supply Meter Points, is that the shipper has the responsibility for registering the appropriated level of capacity at individual supply points.

To increase a capacity booking, using information obtained as the registered user, or as a prospective registered user, the shipper should assess the requirement of the supply point and submit capacity increase request, through UK-Link, to the transporter for authorisation.

The request will either be auto-approved using pre-set parameters in the system, (within 5 business days of the request being submitted), or referred to the network operator for network analysis and subsequent approval or disapproval, (which may take up to 21 business days).

Both in terms of hourly offtake rate and daily capacity, the quantity of gas offtaken during a hour or within day is not [commercially] restricted, although once the daily quantity has been verified on D+1, should the daily quantity exceed the registered capacity the process for dealing with these events is as follows

The full marginal capacity utilised would be subject to a ratchet charge and would automatically be registered to the shipper but the registration would be capped at the Provisional Maximum Supply Point Capacity, (PMSOQ), (which is set at 16 x the hourly offtake rate).

Any element of capacity between the PMSOQ and the full marginal capacity utilised would be subject to additional network analysis, before being allocated / disapproved.

Nothing in the UNC, in terms of daily offtake rates and daily capacity registrations, prevents the network operator from taking action to reduce the rate at which gas is offtaken if, in its opinion, a consumer is prejudicing the safe operation of the network.

Section J - Exit Requirements

Section J establishes that Supply Points, particularly large offtakes or offtakes with complex requirements, may be governed by separate agreements to supplement the standard UNC arrangements. These supplementary arrangements are known as Network Exit Provisions (NEPs) and the separate agreements are known as Network Exit Agreements, (NExAs)

A NExA can be either a bilateral agreement, (between the transporter and customer), or tripartite agreement, (between the transporter, customer & shipper(s)), that contains site specific terms relating to

a range of Network Exit Provisions. For the purposes of this proposal, a NExA may contain values pertaining to capacity.

In terms of amending the NEPs in a NExA, the governance arrangements are contained in the provisions of J4.3.6, which requires that the registered user is informed of, and consents to, amendments that come into effect during its period of registration.

Additionally, under Section J5.2, there is a requirement for the transporter to inform a nominating shipper of the existence of a NExA, (although it is not required pass on specific terms). Thereafter, the UNC states that the shipper is responsible for contacting the customer and obtain details of the NExA and the User shall be responsible for ascertaining the terms thereof from the relevant consumer; and where the User subsequently submits a Supply Point Confirmation the User shall be deemed to be fully informed of such terms.

The key point being made in the proposal is that, in terms of a relationship between the capacity booked through Section G and the capacity arrangements set out in a NExA, there is no UNC rule-based correlation between the two, a situation that the proposal seeks to remedy by capping the Section G capacity bookings at the level set out in the NExA.

11.2 Workgroup Comments on these statements:

The unamended version of Section 11.1 of this document was circulated to the Modification 0696 Workgroup on 17th December 2019, with the Workgroup being actioned to review and comment.

One response was received, from SGN, whose comments have been incorporated into this version

11.3 Detail on the deficiencies in the current arrangements – as described in the proposal

The deficiency, according to the proposer, is that while there are informational pathways in place intended to help prevent this type of capacity mismatch occurring, there is no absolute rule, nor systematised block, to prevent the Section G Capacity Bookings being greater than the daily capacity value, (or equivalent terms depending on the actual drafting of the NExA), recorded as part of the Network Exit Provisions.

11.4 Review of impact on central systems, processes and procedures

Initially, as part of the solution for Proposal 0696, given the very low volume of transactions, the view was that any refunds would be authorised by the transporter and invoiced as an ad-hoc credit. Following the development of BR3 as part of the Variation request, the level of complexity associated with managing instances of NExA capped capacity ratchets warranted the development of a semi-automated solution for setting and resetting Supply Point Capacity.

Consequently, the proposal now has an XRN and a UK-LINK change specified as part of implementation

System changes associated with the implementation of this proposal are captured in more detail in Section 6 of the Workgroup Report for Modification 0696V.