

Draft Modification Report
Enduring Arrangements for Supply Point Capacity decrease at an Interruptible Supply Point
Modification Reference Number 0215
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

The implementation of UNC Modification Proposal 0090 (Revised DN Interruption Arrangements) on 1 April 2008 will mean that from October 2011 all LDZ Supply Points will be considered to be Firm.

For any LDZ Supply Point wanting to continue to have an Interruptible Supply Point the Registered User will have been through a tender process, with the relevant Distribution Network Operator (DNO), to secure an Interruption Tranche, or Interruptible Tranches, of Supply Point Capacity for any Gas Year beyond October 2011. An Interruption Tranche, or the sum of the Interruption Tranches (subject to a maximum of nine (9)) can be any value up to the Supply Point Capacity (subject to it being greater than the Minimum Interruption Amount).

Although these changes do not come into force until October 2011 the first annual tender process will take place in June 2008. For each annual tender process in Year 'Y' the relevant DNO will publish their requirements by way of an Interruption Invitation for years Y+4 to Y+8. For the 2008 annual tender the Interruption Invitation will be for Gas Years 2011/12 to 2015/16 inclusive (known as the Interruptible Periods).

In response to the Interruption Invitation the Registered User may submit an Interruption Offer to designate one or more tranches of DM Supply Point Capacity as Interruptible for any applicable Interruptible Period. The Interruption Offer for a specific Supply Point will contain 4 key elements:

- 1) the proposed amount (in kWh/Day) of SOQ that would form the Interruptible Tranche;
- 2) the number of days within the Interruptible Period that interruption can take place upon (known as the Interruption Allowance);
- 3) the Interruption Option Price (in pence/kWh/Day) that will be paid by the DNO to the Registered User for each day of the Interruption Period regardless of whether interruption actually occurs; and
- 4) the Interruption Exercise Price (in pence/kWh/Day) that will be paid to the Registered User in respect of each Day upon which the DNO Interrupts such Interruptible Tranche.

The total amount of Interruption Option Price and Interruption Exercise Price that would be payable for any Interruption Period, on the assumption that the full Interruption Allowance (number of days) had been utilised, is known as the Overall Interruption Price.

Once a site has successfully secured Interruptible Supply Point Capacity it will be subject to the arrangements within UNC TPD Section G 6.1.6 if the User

wishes to increase or decrease the Supply Point Capacity (SOQ).

The arrangements for an increase in the SOQ at an Interruptible Supply Point are described in UNC TPD G 6.1.6(a) and, in summary, any increase of SOQ over the existing Prevailing Supply Point Capacity will be treated as Firm; there will be no effect on the Interruptible Tranches of Supply Point Capacity in any Interruption Period.

The arrangements for a decrease in the SOQ at an Interruptible Supply Point are described in UNC TPD G 6.1.6(b). The process for reducing any Interruptible Tranche(s) or Firm Supply Point Capacity is as follows:

- 1) the Interruptible Tranches for each Interruption Period will be ranked in order of Overall Interruption Price, highest priced first;
- 2) the amount of the decrease in SOQ will be applied against the Interruption Tranches in the order ranked, until the amount of the decrease has been fully applied or all Interruption Tranches have been extinguished;
- 3) the remaining amount, if any, of the decrease in Supply Point Capacity shall be applied to reduce the amount of the Firm Supply Point Capacity;
- 4) if a Interruptible Tranche stills remains, but is less than the Minimum Interruptible Amount, the amount will be redesignated as Firm Supply Point Capacity; and
- 5) in the case of a Supply Point Confirmation for a New Supply Point the above 4 rules will apply to the existing Interruptible Supply Point(s) (in aggregate if more than one), and the rules for disaggregating an Interruptible Supply Point, set out in UNC TPD G 6.1.5(c) will also apply.

The above measures are triggered once an increase or decrease in SOQ occurs; there is currently no mechanism within the UNC for either the DNO or the registered User to impact upon this process. The intention of this Modification Proposal is to introduce into the UNC the ability for the Registered User and the DNO to make alternative arrangements when there is a decrease in the SOQ at an Interruptible Supply Point. We do not intend to alter the arrangements for an increase in SOQ at an Interruptible Supply Point.

The arrangements that we are proposing to introduce would allow, upon agreement between both the Registered User and the DNO, for any decrease in SOQ, or portion of it, to remain as Interruptible Tranche Capacity and, instead, the decrease would reduce the Firm Supply Point Capacity. If either the Registered User or the DNO did not wish to retain any of the proposed decrease in SOQ as Interruptible Capacity then the existing arrangements in UNC TPD G 6.1.6(b) would apply.

We believe the arrangements introduced by UNC Mod 0090 were done so on the basis that if a Supply Point Capacity is reduced then the overall demand within the Location Zone is also reduced; therefore the equal amount of Interruptible Capacity is no longer required. This would be the case for the majority of situations but this does not account for other network demand increases / constraints, other Supply Points that would like to redesignate

Interruptible Capacity as Firm or for the situation where a DNO has not satisfied its Interruption Capacity requirements for the Interruption Zone that the Supply Point resides within. If the Supply Point can still offer the original level of Interruption Capacity, and the end consumer / User wishes to still do so, we believe that the process should allow for some or all of the Interruption Tranche Capacity to remain.

The flexibility offered by this Proposal may be paramount for October 2008 due to the recent proposed changes to the structure of LDZ Transportation Charges (consultation paper DNPC03 ‘LDZ System Charges - Capacity / Commodity Split and Interruptible Discounts’). This will introduce an element of Capacity Charges (approximately 47.37% of the Firm Capacity Charge) for existing Interruptible Supply Points from October 2008. As current LDZ Transportation Charges for Interruptible Supply Points are based on the Supply Point Bottom Stop SOQ (BSSOQ) there is the belief that the SOQ for such sites have diverged over time and may be inaccurate.

The new charging structure will utilise both the BSSOQ and SOQ in determining LDZ Capacity Charges for Interruptible Supply Points. This may lead to SOQ values being revised (reduced) in the Capacity Reduction Period that occurs between October and January each year. If the reduction in Capacity occurs at any Supply Point that has secured Interruptible Tranche or Tranches for Gas Years 2011/12 and beyond, the Interruptible Tranches will reduce or extinguish following the process detailed in UNC TPD G 6.1.6(b).

For clarification this proposal will have no impact on the following:

- Arrangements for interruptible sites directly connected to the National Transmission System
- The arrangements in relation to an increase in SOQ as described in UNC TPD G 6.1.6(a)
- The arrangements for changes in SOQ at current Interruptible Supply Points (the process in UNC TPD G 6.1.6(b) refers only to Interruption Tranches for Gas Years 2011/12 and beyond).
- Charges that are levied for the Interruptible or Firm elements at a Supply Point

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Allowing Interruption Tranche Capacity to remain in place, at a specific Supply Point, will give the DNO the ability to efficiently and economically operate the network (pipe-line system). By retaining Interruptible Supply Point Capacity the DNO may be able to allow an increase in Capacity elsewhere on the network, relieve an existing or future known constraint or to satisfy the Interruption Capacity, or part of, that is required within the specific Location Zone.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;***

By satisfying the Interruptible Capacity requirement within a network will allow the DNO and the Upstream Transporter to operate the combined pipe-line system in a coordinated, efficient and economic way.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation of the Modification Proposal will better facilitate this relevant objective as it will assist the Transporter in planning and developing its pipe-line system in accordance with Standard Special Condition A9 (Pipe-Line System Security Standards). The Transporter will be better placed to manage the amount of Interruptible Capacity available against the operation and development of the network as a whole.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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 of this Proposal will better facilitate this relevant objective as it will allow Users to maintain available and required Interruption Capacity that had been secured through the annual or ad-hoc Interruption Invitation.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation of this Proposal will better facilitate the promotion of efficiency in the administration of the network code as the mandatory arrangements and process that currently exists will not be invoked if the User and DN Operator agree otherwise.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

By giving Users and DNOs the ability to retain Interruptible Supply Point Capacity may assist the DNO in satisfying their Interruptible Capacity requirement and therefore ensuring that they can fulfil their obligations on security of supply.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

By retaining Interruption Capacity the ability of the relevant Transporter to manage the operation of the system will be increased.

b) Development and capital cost and operating cost implications:

There is no development cost, capital cost or operating cost implications associated with implementation of this Proposal. DNOs would need to engage with Users if they wished to retain any Interruptible Tranche Capacity that was subject to a reduction, this would significantly impact on operating costs.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No cost recovery mechanism is required.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences have been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The level of contractual risk of each Transporter would not be impacted upon by the Implementation of this Proposal.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

There are no development, or other, implications for Transporter or Users systems.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Users and DNOs would need to reach agreement prior to the reduction in SOQ becoming effective in order to make any arrangements to retain Interruptible Supply Point Capacity.

Development and capital cost and operating cost implications

No such implications have been identified.

Consequence for the level of contractual risk of Users

There would be no consequence on the level of contractual risk of Users by implementation of this Proposal. These proposed arrangements would only apply where the User and the relevant Transporter are in agreement, the default process that currently exists would apply otherwise.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No such implications have been identified for any other relevant persons.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Introduces flexibility into the arrangements in place for a decrease in SOQ at an Interruptible Supply Point, this may be beneficial to the end consumer, the User and the DNO
- Existing arrangements would always apply by default if no agreement is made between User and DNO
- The DNO's ability to manage the network will be increased as retained Interruptible Supply Point Capacity could be used to offset other demand / constraints on the network or to satisfy the Interruption Capacity requirement, or part of, within a specific Interruption Zone

Disadvantages

- No Disadvantages have been identified as the proposed arrangements would only be used when both the User and the DNO had agreed to do so

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

This Modification Proposal will need to be implemented by the 1st October 2008 as this is the first opportunity for a reduction in Supply Point Capacity to become effective. This would then allow for the impact of any reduction in SOQ at a Supply Point, which had secured Interruptible Tranche Capacity in the June 2008 tender process, to be assessed accordingly and any necessary discussions between the User and DNO to take place.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters