

REVIEW GROUP DRAFT TERMS OF REFERENCE
CODE REVIEW PROPOSAL No 0264

Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply
Version 1.0

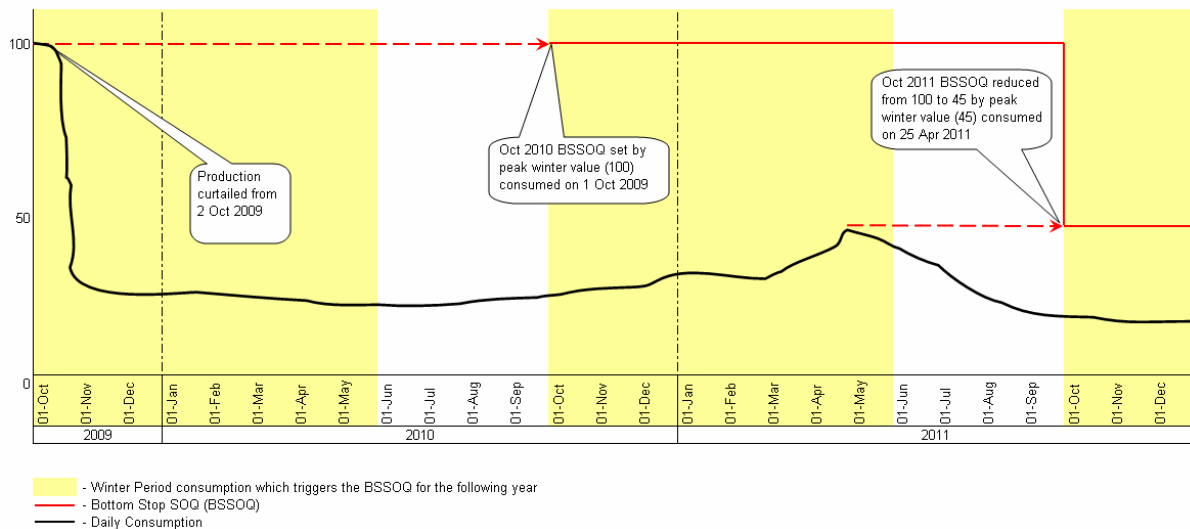
Date: 18/09/2009

1. Nature and Purpose

Under the existing terms of the UNC, a Registered User's Supply Point Capacity at a DM Supply Point:

- is not permitted to be at any time less than the *Bottom Stop Supply Point Capacity* (BSSOQ); and
- may only be reduced (below the prevailing Supply Point Capacity) within the *Capacity Reduction Period*.

The *BSSOQ* is the peak day consumption (at the Supply Point) within the previous winter period (October to May inclusive) and the revised value is implemented with effect from 01 October (subsequent to the relevant winter period). As a consequence in the worst case scenario the current process may result in the peak day winter consumption influencing the BSSOQ for up to two years, the following diagram illustrates this:



The *Capacity Reduction Period* is the period October to January.

Within the current economic climate a number of Industrial and Commercial consumers are reducing their levels of production by either mothballing plant or reducing production, or as a consequence premises may become part vacant in the short to medium term. Whilst the UNC allows Users to efficiently *cease* registration at a Supply Point via the Isolation and Withdrawal process, the restrictions on the *reduction* (as opposed to cessation) of capacity outlined above do not allow Users to reflect the reduced demand within the Transportation Charges levied by Transporters in a timely manner. As identified above this may take up to 2 years due to the current timings of the revision of BSSOQs.

Subsequent to this issue being raised by consumers at the Gas Customer Forum and the

Demand Side Working Group, Corona Energy raised UNC Modification Proposal 0244 in March 2009. In addition two alternative Proposals (raised by Wales & West Utilities and National Grid Distribution) were raised. All three Proposals sought to introduce measures to address the concerns raised. In summary:

- 0244 - sought to enable the Registered User to vary the AQ, BSSOQ and SOQ at any time subject to a number of restrictions;
- 0244A – sought to enable the Registered User to reduce the SOQ below the BSSOQ at any time subject to a User warranty; and
- 0244B – sought to enable the Registered User (on a transitional basis up to 30 September 2011) to reduce the SOQ below the BSSOQ within the Capacity Reduction Period.

Ofgem rejected all three proposals on 20 May 2009. Although it determined that AQs, SOQs, SHQs and BSSOQs that better reflect actual usage would help to ensure that the GDNs book an appropriate level of NTS Exit Capacity required for the consumers connected to their systems, Ofgem also concluded that all of the proposals could increase the risks of stranded assets and inefficient investment and/or lead to NDM consumers having to bear a disproportionate share of the costs of the gas distribution system. On balance therefore, Ofgem concluded that implementation of any of the proposals would not better facilitate the relevant objectives.

In its decision letter Ofgem invited the industry to “*consider whether, in the light of our comments and decision, they wish to consider developing further proposals to address the problem identified*”.

To meet this objective, National Grid Distribution (NGD) proposes that a Review Group be established to identify the extent of the issue, determine the impacts and evaluate whether any changes (to the UNC or otherwise) are necessary. We believe that this is an appropriate way forward as a Review Group can accommodate the participation of all parties in considering whether change is necessary. To ensure that a robust conclusion is reached it is suggested that the Review Group requires the active participation of Users and also consumers to accurately identify the scale and significance of the issue. Ofgem identified that there was a lack of analysis submitted in respect of the 0244 Proposals and therefore a Review Group would facilitate a co-ordinated approach to the collation of analysis and evidence that is available.

2. Topics for Discussion

The following topic items are included within scope of the Review Group and should be considered within the Terms of Reference:

1. Analysis of the current issues:
 - a. How were they created?
 - b. What impacts do they have on consumers and to what extent would any solution reduce these impacts?
 - c. What are the key relationships affected amongst transporter, shippers/suppliers and consumers.
2. Short term transitional relief for consumers, including:

- a. options and impacts on UNC; and
 - b. other contract remedies which may be appropriate for transitional relief.
3. Long term solutions, including:
- a. consideration of changes to the BSSOQ / ratchet regimes; and
 - b. impacts on user pays services and charges.

3. Suggested Aims and Outputs

It is envisaged that this Review Group will produce a report recommending any necessary changes to the UNC and possible suggestions for the amendment of gas supply contracts. It is recommended that the Review Group completes its work within a 6 month period. However, short term transitional relief options should be considered and reported on by October 2009. If necessary this could be extended by seeking agreement of the Modification Panel.

The Review Group should also look to include any draft Modification Proposals as part of the final report (this does not prevent related Modification Proposals being raised during the period of the Review Group).

In respect of any identified solutions, the Review Group should consider:

1. mitigation measures to prevent inappropriate behaviours;
2. the likely impact of any changes on consumers affected;
3. the likely impact of changes on other consumers charges (i.e. costs that are recovered from the remainder of the GDN consumer base); and
4. implications for capacity planning and associated investment decisions.

4. Scope and Deliverables

The Review Group shall focus on changes to the UNC, but also identify where improvements could additionally be made to areas of governance outside of the UNC.

5. Limits

The Review Group will focus on developing recommendations and UNC Modification Proposals that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes within UNC, however it will not develop changes for non code processes but will request reports from Review Group members who can influence changes with the appropriate industry body.

The Review Group is to be mindful of related industry obligations, processes and previous reports, including:

1. UNC;

2. Gas supply contracts; and
3. Licence and Legal obligations.

6. Composition of Review Group

Since the potential impacts of the Review Group are wide ranging, members would be welcome from Transporters, Shippers, Consumers, Ofgem and iGTs.

Bob Fletcher (Chair)	Joint Office of Gas Transporters
Helen Cuin (Secretary)	Joint Office of Gas Transporters
Alison Meldrum	Corus Group
Anne Jackson	Scottish and Southern Energy
Anna Taylor	Northern Gas Networks
Brian Durber	EON Energy
Chris Hill	RWE Npower
Chris Warner	National Grid Distribution
Dean Johnson	xoserve
David Watson	British Gas Trading
Eddie Profitt	Major Energy Users Council
Gareth Evans	Waters Wye Associates
Joanna Ferguson	Northern Gas Networks
Joel Martin	Scotia Gas Networks
Karron Baker	Ofgem
Lesley Ramsey	National Grid NTS
Mark Jones	Scottish and Southern Energy
Richard Street	Corona Energy
Shelley Rouse	Statoil (UK)
Simon Trivella	Wales & West Utilities
Stefan Leedham	EDF Energy
Steven Marland	National Grid Distribution

7. Timetable

It is proposed that a total period of 6 months be allowed to conclude this review. However, the Review Group should prioritise reporting any identified solutions for transitional relief by October 2009.

Although the frequency of meetings will be subject to review and potential change by the Review Group it is suggested that the initial frequency of the meetings be twice monthly.

Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

8. Work Plan

The topics set out in this section will form the main items for discussion in three separate workplan groups as follows:

Meeting	Date	Topics to be Discussed
1	01/09/09	Introductions and agree Terms of Reference and workplan
2	16/09/09	Initial Analysis Transitional relief
3	TBA	Longer Term Solutions including a review of UNC options
4	TBA	Longer Term Solutions including a review of UNC options
5	TBA	Longer Term Solutions including a review of UNC options
6	TBA	Longer Term Solutions including a review of UNC options
7	TBA	Longer Term Solutions including a review of UNC options
8	TBA	Longer Term Solutions including a review of UNC options
9	TBA	Longer Term Solutions including a review of UNC options
10	TBA	Complete discussion and discuss draft Review Group Report and any Modification Proposal
11	TBA	Complete Review Group Report and any Modification Proposal