

Modification Report
Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage
Modification Reference Number 0275
Version 3.0

This Modification Report is made pursuant to Rule 10.1 of the Modification Rules and follows the format required under Rule 10.2.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2, Ofgem agreed that this Modification Proposal should be treated as Urgent because the Proposal is linked to an imminent date related event, insofar as the prevailing Capacity Reduction Period expires 31 January 2010; and there is a real likelihood of significant commercial impact upon customers if the Proposal is not treated as urgent.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal were:

Process	Date
Proposal issued for consultation	18/11/09
Close out of representations	04/12/09
FMR issued by Joint Office to Modification Panel	05/12/09
Modification Panel decide upon recommendation	11/12/09
Ofgem decision expected by	18/12/09
Proposed implementation date (subject to decision)	21/12/09

1 The Modification Proposal

Background

Within the current economic climate, National Grid Gas Distribution (NGD) understands that a number of ‘industrial and commercial’ consumers operating in the Daily Metered (DM) market are reducing their levels of demand and capacity requirements as a consequence of economic conditions. Whilst the Uniform Network Code (UNC) allows Users to efficiently cease registration at a Supply Point via the Isolation and Withdrawal process should a gas supply cease to be required, the restrictions on the reduction (as opposed to cessation) of capacity limit a Users ability to efficiently reflect the reduced demand, in some cases, to that required over the following Gas Year. Under certain conditions, this may take up to 2 years due to the current timings of the revision of certain underlying data.

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 (SOQ)) 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 1st 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 2 years.

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

Discussions within UNC Review Group 0264 'Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points' are expected to continue to determine the optimum way forward in the medium/long term on an enduring basis from October 2011 to co-ordinate with the new Distribution Network (DN) Interruption Regime introduced by UNC Modification 0090. Accordingly this Proposal aims to resolve any immediate short term issues only and would thereby apply as a transitional arrangement.

Proposal

The Review Group identified a need for so called 'transitional relief'. This is a requirement that Users are able to overcome the constraining effects of the BSSOQ but only under certain specific conditions and for a limited period only.

Therefore it is proposed that an 'appeal' or exceptions mechanism be introduced, applicable to the capacity reduction window for the years 2009/10 and 2010/11 only, such that Users are permitted to seek a reduction in the BSSOQ concurrent with seeking a reduction in the SOQ. This would require a number of time limited clauses to be introduced to the UNC.

Such a request would be permitted under the following circumstances:

NB. It is not proposed that NTS Supply Points would be covered by this process.

- 'Appeal' requests may only become effective within the existing Capacity Reduction Period. Therefore this Proposal would permit such appeals within the period October 2009 (or the implementation date of this Proposal, whichever is the later) to the end of January 2010 and from October 2010 to the end of January 2011.
- The request must include revisions to both the SOQ and BSSOQ to the same value and such value must be lower than the prevailing BSSOQ. Reduction of SOQ to a value equal to or greater than the prevailing BSSOQ must be pursued via the existing UNC TPD Section G terms governing such requests. Where appropriate (see below) the User may additionally request amendment of the prevailing SHQ.
- No changes to the rules governing the calculation of the Supply Point Offtake Rate (SHQ) are proposed. Prevailing UNC rules as set out in TPD Section G5.4.1 apply.
- The Registered User is required to obtain and provide to the Distribution Network Operator's agent a signed letter of consent from the relevant end consumer. This would state the following information:
 - The anticipated peak daily load for the whole Gas Year

- commencing October 2009 and/or October 2010.
- The reason/s for the change in peak daily load (plant change, turn down in production, etc).
 - That gas will continue to be offtaken. Note: in the event that no offtake of gas is anticipated at the relevant DM Supply Meter Point, then these procedures do not apply. Isolation and Withdrawal terms apply in accordance with UNC TPD Section G3.
- One such successful appeal will be permitted for each relevant Supply Point becoming effective within the period October 2009 (or the implementation date of this Proposal, whichever is the later) to January 2010 and/or October 2010 to January 2011 regardless of whether there is one or more change to the Registered User within this period.
 - At anytime after the appeal the Registered User may use existing mechanisms to increase the SOQ above the level set via this appeal mechanism.
 - Due to a risk of inappropriate behaviour being incentivised on Interruptible Supply Points, the following additional mechanisms are proposed in respect of these:
 - The Registered User so warrants that the above information is accurate and reflective of anticipated consumption for Gas Year commencing October 2009 and/or October 2010.
 - The following 'catch up' mechanism is proposed to ensure a User would not benefit from using this appeal mechanism to set the SOQ below the level of capacity used.
 - The actual maximum daily offtake will be determined between the date when the BSSOQ and SOQ were reduced via the 'appeal' process and the end of the 2009/10 and/or 2010/11 Gas Year.
 - If the actual maximum daily offtake within the Relevant Period is greater than the reduced SOQ that was applied as part of the appeals process then additional charges will be levied to the Registered User.
 - Such additional charges will be equal to the Transportation Charges avoided, being the difference between:
 - the charges applicable based upon the BSSOQ and SOQ values registered prior to the appeal, and;
 - charges applied in accordance with the BSSOQ and SOQ as revised as a consequence of the appeal.
 - The Relevant Period is up to 30 September 2010 and/or 30 September 2011. For the avoidance of doubt no change is proposed to the existing UNC provisions relating to Supply Point Ratchets.

Where the User has subsequently increased its SOQ to a level above the BSSOQ value registered prior to the appeal then the charge will only apply up to the date on which the subsequent SOQ increase is registered.

Suggested Text

2 User Pays

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

The proposer believed that User Pays arrangements did not apply with respect to this Modification Proposal.

EDF Energy and National Grid NTS believe that implementation would require xoserve to deliver new services for which there would be an associated cost, and hence that the Proposal should be classified as User Pays.

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

Not applicable.

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

Not applicable.

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

Not applicable.

3 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;

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

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;

Implementation would not be expected to better facilitate this relevant objective or have any adverse consequences.

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;

EDF Energy noted implementation of this proposal will extend the ability to alter SOQs to the GDN connected DM LSP market. However this service will not be available to the SSP market, and so they will be unable to alter their Transportation charges or energy allocation. They therefore question whether extending this service to the DM LSP market is due or undue discrimination and so consistent with the relevant Gas Transporter obligations under their Licence.

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;***

NGD's view is that this Modification Proposal would enable Users to reduce their capacity bookings at DM Supply Meter Points in line with their LDZ exit capacity requirements for Gas Year commencing October 2009 and/or October 2010. This should improve the cost reflectivity of the regime within this period. This can be expected to facilitate DNO Licence 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.

British Gas disagree strongly with National Grid Distribution that this modification is required. They argue that without clear evidence of need it is not possible to show this modification will lead to "effective competition" and they therefore disagree that this proposal meets this relevant objective.

EDF Energy highlight that implementation of this proposal could result in a cross subsidy between the SSP and LSP market and so question whether this proposal facilitates this relevant condition or not.

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 would not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the System:

No such implications have been identified.

b) Development and capital cost and operating cost implications:

Limited systems and process implementation costs are expected to be incurred by DNOs as a consequence of implementing this Modification Proposal. The 'appeals' process would be operated using the DNOs' agent's 'Conquest' system.

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

No additional cost recovery is proposed.

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

No such consequences have been identified.

6 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

As with Modification Proposal 0244, in the event of implementation of this Modification Proposal, dependant on the extent of utilisation of the extended capacity reduction opportunities by Users, there could be under recovery of transportation revenue by DNOs particularly for 2009/2010. This is because transportation charges for this period have already been set based upon continuation of the existing UNC regime. This would flow through the 'K' factor and impact transportation charges for 2010.

NGD is of the view that the extent of utilisation of this Proposal would not be significant. Given the transitional nature of the proposed terms (BSSOQs would be recalculated for 1st October 2010 and/or 1st October 2011 based on peak daily consumption in winter period 2009/2010 and/or 2010/2011) any consequential under recovery would be minimal and restricted to Gas Years commencing October 2009 and October 2010.

7 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

No changes to the UK-Link system would be necessary to facilitate implementation of this Modification Proposal.

No responses indicate that there would be an impact on Users' systems.

8 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)

It is expected that changes to relevant processes and procedures for those Users having DM Supply Meter Points within their portfolio would be required.

Development and capital cost and operating cost implications

NGD is not aware of such implications.

Consequence for the level of contractual risk of Users

The level of a User's contractual risk may be impacted by implementation of this Modification Proposal. However, NGD would expect this to reduce in terms of allowing the reduction of Transportation charges in line with actual demand for relevant Supply Points.

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

The effects of implementation of this Modification Proposal and the extent to which it would enable industrial and commercial end consumers to limit their exposure to relevant supplier charges is unclear. This would depend on the nature of the relevant supply contracts held. However, it is expected that the resultant lower capacity charges levied to Users would be passed on in terms of savings for end consumers at DM Supply Points.

British Ceramic Confederation members have indicated that they need options to manage gas capacity charges in these times of reduced market demand for their products. This modification would help give them choices about how they control costs in these challenging times.

Corus indicate that they have some potential to take advantage of this Proposal.

10 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

The cost reflectivity of the DM LDZ exit capacity regime would be improved.

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

Advantages

Provides a simple, pragmatic method by which, under certain pre-determined conditions, a User may amend the capacity requirements at a DM Supply Point to reflect anticipated consumption, thereby improving cost reflectivity.

Disadvantages

No disadvantages have been identified.

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

Representations were received from the following fifteen parties:

Organisation	Position
British Ceramic Confederation	Supports
British Gas	Not in support
Corona Energy	Supports
Corus	Supports
EDF Energy	Supports
Gazprom	Supports
MEUC	Supports
National Grid Distribution	Supports
National Grid Transmission	Supports
Northern Gas Networks	Comments
RWE npower	Qualified Support
Scotia Gas Networks	Supports
Shell Gas Direct	Supports
Statoil	Supports
Wales & West Utilities	Comments

Of the fifteen responses received, eleven support implementation, one offered qualified support, two provided comments, and one was not in support.

NGD recognises that in respect of Proposals 0244, 0224A and 0244B (that sought similar changes) Ofgem expressed concern in respect of the potential detrimental impacts upon:

- the efficient operation of systems (SSC A11(b))
- efficient discharge of licence obligations (in respect of the charging methodology) (SSC A11(c)), and
- effective competition between shippers (SSC A11(d)).

NGD believes that the process controls proposed (including a 'catch up' mechanism), allied to the transitional nature of such arrangements, mean that the proposed arrangements would not have any adverse consequences to the relevant objectives specified above.

MEUC believes the relevant UNC rule is outdated, was inherited from the monopolistic British Gas and needs to be changed. It reflects the prevailing attitude of the time that the Transporter knows the gas requirements of a consumer better than he does himself. It also reflects the distrust of this new group called shippers as few understood their role. The rule retains the dictatorial attitude that existed at the beginning of competition.

British Gas believes implementation would have a detrimental effect on the accurate targeting of costs, because reducing charges at one Exit point would need to be balanced with increases in charges more generally so as to allow Transporters to recover their allowed revenue. This would mean that NDM customers, including those in the domestic sector, would need to pay more so that others could pay less. In addition, and because the likely take-up of this change remains unknown, industry participants are unable to assess the scale of this redistribution of costs from the DM to NDM markets.

British Gas were also concerned about the level of stranded investments and the potential for artificially reducing costs.

Although Corus provide general support for the Proposal, they point out certain deficiencies in the current Proposal. They note the interruptible 'ratchet' element assumes a retrospective penalty charge, which is not related to the scale and impact of the breach. This also applies to capacity on which the end-user has no firm rights. This reads as a punitive charge of greater severity than the firm ratchet regime. However, their understanding is that a higher SOQ (than the capacity figure achieved from this process) can still be agreed without penalty and within-year, provided this is notified in advance via the normal channels for capacity reservation. They also point out that the Proposal is deficient in that it fails to widen the capacity reduction window. End users will take time to review further capacity changes. In Corus' case they have some potential to take advantage of this Proposal but this is subject to final business concurrence.

RWE npower have some concerns about the potential level of take up with

regard to the proposed exceptions mechanism and the cross subsidy that this would create. In addition they are also concerned that significant SOQ and BSSOQ reductions over the course of the Gas Year could result in DNOs overbooking NTS Exit Capacity through the OCS window which could lead to an under recovery in NTS TO Exit revenue.

13 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.

14 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.

15 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.

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

- Ofgem decision expected by 18/12/09
- Proposed implementation date (subject to decision) 21/12/09

17 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.

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

At the Modification Panel meeting held on 11 December 2009, of the nine Voting Members present, capable of casting nine votes, eight votes were cast in favour of implementing Modification Proposal 0275. Therefore the Modification Panel recommended implementation of Proposal 0275.

19 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.

20 Text

UNC TRANSITION DOCUMENT: PART IIC TRANSITION RULES

Add new paragraph 1.9 as follows:

1.9 TPD Section G: Supply Points

1.9.1 TPD Section G 5.2

Until 0600 on 1 October 2011 but not thereafter, for the purposes of TPD Section G 5.2:

- (a) Notwithstanding TPD Section G 5.2.1, in relation to an LDZ DM Supply Point Component, a Registered User may apply at any time, in accordance with this paragraph 1.9, to reduce the Registered DM Supply Point Capacity held to an amount below the Bottom-Stop Supply Point Capacity (the “Capacity Reduction Application”).
- (b) The Registered DM Supply Point Capacity may only be reduced using a Capacity Reduction Application to take effect once within the Capacity Reduction Period for the Gas Year commencing 1 October 2009 and once for the Capacity Reduction Period for the Gas Year commencing 1 October 2010.
- (c) A Capacity Reduction Application shall:
 - (i) be accompanied by a signed letter from the relevant consumer at the LDZ DM Supply Point stating the following information:
 - (1) a best estimate of the highest User SPDQ for any Day in the relevant Gas Year;
 - (2) the reasons for the requested change to reduce the Supply Point Capacity and the corresponding change in the Bottom-Stop Supply Point Capacity to equal the revised Supply Point Capacity; and
 - (3) a statement that Gas will continue to be offtaken at the relevant LDZ DM Supply Point.
 - (ii) and shall specify:
 - (1) the Supply Meter Point Reference Number;
 - (2) the Supply Point Registration Number;
 - (3) the revised DM Supply Point Capacity;
 - (4) the revised Supply Point Offtake Rate.
- (d) The Transporter may reject a Capacity Reduction Application which is not made strictly in accordance with this paragraph 1.9.
- (e) By making a Capacity Reduction Application, the Registered User warrants to the Transporter in writing that the information contained in such Capacity Reduction Application is accurate and reflects a bona fide estimate of the future consumption up to 1 October 2011.
- (f) Where the Transporter does not reject a Capacity Reduction Application and Renomination by the Registered User in accordance with TPD Section G2.3 in respect of the relevant LDZ DM Supply Point Component on the basis of the revised Supply Point Capacity, the Transporter will submit to the Registered User

a Supply Point Offer in accordance with TPD Section G2.4 and upon receipt of which, the Registered User may submit a Supply Point Reconfirmation in accordance with TPD Section G2.5.

(g) With effect from the Supply Point Registration Date in respect of such Supply Point Reconfirmation, the LDZ Capacity Charges shall be determined by reference to the revised DM Supply Point Capacity, or the revised Bottom Stop Supply Point Capacity as appropriate, and notwithstanding TPD Section G paragraph 5.2.3(a), the revised Bottom Stop Supply Point Capacity shall be set to equal to the revised Supply Point Capacity.

(h) In order to take effect, all Supply Point Confirmations made in accordance with this paragraph 1.9 must have a Supply Point Registration Date within the Capacity Reduction Period for the relevant Gas Year.

1.9.2 Where following revision of the Registered DM Supply Point Capacity for an Interruptible LDZ DM Supply Point Component in accordance with this paragraph 1.9 until the earlier of:

(a) 06:00 on 1 October 2011; or

(b) the date that an increase of the Registered DM Supply Point Capacity above the Bottom Stop Supply Point Capacity prevailing prior to revision of the Registered DM Supply Point Capacity takes effect;

the quantity of gas offtaken for any Day exceeds the User's Registered DM Supply Point Capacity then the User shall pay the difference between the LDZ Capacity Charges applicable prior to the first successful Capacity Reduction Application made effective pursuant to paragraph 1.9.1 and the actual charges paid or payable subsequent to such successful Capacity Reduction Application.

For and on behalf of the Relevant Gas Transporters:

Tim Davis

Chief Executive, Joint Office of Gas Transporters