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to customers

The Joint Office, relevant Gas
Transporters, Shippers and other
interested parties

Our Ref: Net/Cod/Mod/UNC275
Email: industrycodes@ofgem.gov.uk

Date: 17 November 2009

Dear Colleague,

UNC Modification 275: Reduction in DM LDZ Exit Capacity for Supply Points with significant Change in Usage

Following consideration of the request from National Grid Distribution ("NGD") that its modification proposal '*Reduction in DM LDZ Exit Capacity for Supply Points with significant Change in Usage*' follows urgent modification procedures, Ofgem has today agreed to that request.

In reaching our decision on granting urgent status we have considered the details contained within the modification proposal and NGD's justification for urgency¹. It states that a number of customers operating Daily Metered (DM) sites are seeking some 'transitional relief' to reduce their levels of energy demand and capacity requirements as a consequence of the economic downturn.

Depending on whether they are a DM or non-DM (NDM) customer the capacity charge is calculated using a combination of their Annual Quantity² (AQ), Supply Point Offtake Quantity³ (SOQ) and the Bottom Stop Supply Point Offtake Quantity (BSSOQ)⁴. For DM customers the capacity charge is based on maximum peak day flow (SOQ) that is registered with a shipper. If a DM customer changes its SOQ requirements the shipper can re-nominate a higher or lower peak day demand with the Gas Distribution Network (GDN). Capacity charges are then immediately recalculated and actual peak day demand is measured and verified.

However, customers can only do this in a specified Capacity Reduction Period once a year between 1st October and 31st January each Gas Year. Further, there are rules **preventing the SOQ being less than the BSSOQ** (highest capacity for any day during October to May within the preceding year).

In response to this request for transitional relief, it is proposed that an exception mechanism be introduced, applicable to the Capacity Reduction Period for Gas Years 2009/10 and 2010/11 only. This exception would allow customers, through their gas shipper, to request a **reduction in both the SOQ and BSSOQ** for the site.

¹ The proposal is appended to this letter.

² Annual Quantity (AQ) is the annual consumption for the site.

³ Supply Point Offtake Quantity (SOQ) is the maximum peak day flow

⁴ The BSSOQ is the actual peak day consumption at the Supply Point, based on the previous winter period.

On the basis of information provided we consider that this proposal satisfies the criteria for granting urgent status to a modification proposal, as set out in our published guidelines⁵. In particular, we consider that:

- 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 proposed modification is not treated as urgent.

In order to inform the Authority's subsequent decision on this modification proposal NGD has agreed to our request to provide further analysis. Based on data NGD holds on actual reductions of customers' maximum demand relative to their SOQ (provided by customers or otherwise), we have asked it to model the potential level of uptake for this facility and to clarify the impacts of the proposed modification on gas distribution charges by customer group. We also consider that this data will inform responses to the industry consultation; NGD has therefore agreed it will be published by week ending 20 November 2009.

Urgency Timetable

In order to facilitate a decision in time to allow Users to make use of the remaining Capacity Reduction Window, we consider that the proposal should follow the timetable set out below.

Process	Date
Proposal issued for consultation	18/11/09
NG publish analysis to support proposal	20/11/09
Close out of representations	4/12/09
Urgent modification report issued	5/12/09
Modification Panel decide upon recommendation	11/12/09
Ofgem decision expected by	18/12/09
Proposed implementation date (subject to decision)	21/12/09

This timetable will require the UNC modification panel to make its recommendation via an extraordinary meeting/teleconference. We hope this can be accommodated. For the avoidance of doubt, in accepting this request for urgency, Ofgem has made no assessment of the merits of the modification proposal and nothing in this letter in any way fetters the discretion of the Authority in respect of this modification proposal.

If you have any queries in relation to the issues raised in this letter, please feel free to email industrycodes@ofgem.gov.uk.

Yours Sincerely,

Mark Cox
Associate Partner, Industry Codes and Licensing

⁵ <http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/2935-Urgency%20Criteria.pdf>

CODE MODIFICATION PROPOSAL No 0275

Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage
Version 1.0

Date: 13/11/2009

Proposed Implementation Date: 1st January 2010

Urgency: Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Users have informed Transporters that there is real likelihood of significant commercial impact upon certain large consumers if this Proposal is not treated as urgent. This is due to the current controls applied by the UNC in respect of the reduction of the registered Supply Point Capacity.

Additionally, as implementation is required for the 2009/10 Capacity Reduction Period as set out in UNC TPD Section G5.2.2, NGD's view is that the Proposal is linked to an imminent date related event. It is unlikely that treatment under non-Urgent Procedures would precipitate a change prior to the conclusion of the Capacity Reduction Period. NGD believes it is important to afford Users the maximum reasonable opportunity to appeal values within the Capacity Reduction Period.

The following timetable is proposed:

- Ofgem grants urgency status 17/11/09
- Proposal issued for consultation 17/11/09
- Close out of representations 24/11/09
- FMR issued by Joint Office to Modification Panel 25/11/09
- Modification Panel decide upon recommendation 03/12/09
- Ofgem decision expected ASAP following recommendation
- Proposed implementation date 01/01/10

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

Not applicable – urgent procedures are sought.

2 User Pays

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

User Pays arrangements do not apply with respect to this Modification Proposal.

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 this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

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.

The Proposer 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 will mean that the proposed arrangements would not have any adverse consequences to the relevant objectives specified above.

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

No such implications have been identified.

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

a) The implications for operation of the System:

No such implications have been identified.

b) The 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 DNO's agent's 'Conquest' system.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

No additional cost recovery is proposed.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

It will be noted that as is the case 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 a 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 'K' factor and impact transportation charges for 2010.

However, 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.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Implementation is not required to facilitate such compliance.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

No changes to the UK-Link system would be necessary to facilitate implementation of this Modification Proposal. The impact on Users systems is unknown.

8 The implications for Users of implementing the Modification Proposal, including:

a) The 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. The extent of these is unknown to the proposer.

b) The development and capital cost and operating cost implications

The Proposer is not aware of such implications.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

The level of a User's contractual risk may be impacted by implementation of this Modification Proposal. However, we 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 the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, 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.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

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

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

Not applicable.

13 Detail of all other representations received and considered by the Proposer

No such matters have been identified.

14 Any other matter the Proposer considers needs to be addressed

No such matters have been identified.

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Not applicable.

16 Comments on Suggested Text

Not applicable.

17 Suggested Text

To follow.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) Transition Document Part II

Proposer's Representative

Name (Organisation) Chris Warner

Proposer

Name (Organisation) National Grid Distribution