Stage 04: Final Modification Report

What stage is this document in the process?

01 Proposal

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0374:

Interruptible to Firm – Supply Point Transition

The Proposal sets out a "soft landing" for those sites being forced to transfer from Interruptible to "Firm" Status with effect from 1st October 2011.

Panel recommended that Modification 0374 is not implemented.

High Impact:

None

Medium Impact:

None

Low Impact:

SPA transactions for c.1,150 interruptible supply points

Contents

About this document:

This document is a Final Modification Report, presented to the Panel on 18 August 2011.

Any questions?

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1 Summary

Is this a Self-Governance Modification

The Modification Panel did not determine that this modification should follow the self-governance route.

Why Change?

This modification has been raised because customers will be exposed to ratchets without an appropriate period to verify peak load requirements and make appropriate amendments without being subject to penal charges. This approach is also consistent with the approach taken when introducing the new DME product (Modification 0224), which allowed an appropriate period to verify peak load before becoming subject to the ratchet charges i.e. from NDM to DME.

Solution

This modification proposes that ratchet charges will be levied and then reimbursed for a Site with Interruptible Supply Point status changing to a Firm Daily Metered Supply Point from 1st April 2011 until 31 May 2012, for charges applicable from 01 October 2011 to 31 May 2012.

Impacts & Costs

It is anticipated that costs will be minimal as the proposal is to continue to charge Ratchet Charges and then reimburse these charges.

Implementation

It is proposed that the modification is implemented as soon as possible to provide surety to industry participants as to how they will be treated during the transition from Interruptible to Firm.

The Case for Change

Protection from ratchet charges for one year is proposed in the interests of allowing Consumers forced to change from Interruptible to Firm status time to adjust to the new regime.

The approach is consistent with previous changes including the recent introduction of the Daily Metered Elective Product. As Consumers are being forced to change products it is likely that many will take the opportunity to review existing supply arrangements and this may lead to more switching taking place in the run up to October.

This could lead to timing issues when trying to ensure the appropriate SOQs are set as the Appeals process will need to be utilised and potential Network Analysis undertaken if the existing SOQs are altered to reflect current requirements.

With the level of work required to transfer sites along with the potential embargo on registration and the default transfer of Consumers on existing data as a back stop (as proposed in Modification 0367), it is important to provide protection to Consumers in the first year of being transferred to a Firm load.

Recommendation

The Panel are invited to consider the Final Modification Report.

"Mod 90" or "interruption reform"

"Mod 90" introduced new arrangements that removed the "on-demand" interruptible service from the UNC. With effect from 1 Oct 2011, where a DNO has a requirement for interruption, this will be sourced through an auction process

2 Why Change?

This modification has been raised to provide a soft landing when interruptible loads must transition to firm status on or before 1 October 2011. This change is event related and the rules introduced will be transitional in nature; implementation will have no enduring effect on the operation of the Uniform Network Code.

For sites being mandated to transition from Interruptible to Firm it avoids the risk of exposure to ratchets for the initial 12 month period which will allow Customers an appropriate period to verify peak load requirements without being subject to penal charges.

3 Solution

DM Ratchets

This modification proposes that ratchet charges will be levied and then reimbursed for a Site with Interruptible Supply Point status changing to a Firm Daily Metered Supply Point from 1st April 2011 until 31 May 2012, for charges applicable from 01 October 2011 to 31 May 2012.

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objective c.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	No
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.	No
c) Efficient discharge of the licensee's obligations.	Yes
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.	No
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	No

c) The Proposer considers by allowing a soft landing, which protects consumers who may not be familiar with the forthcoming changes is consistent with efficient discharge of the licensee's obligations as it allows time to establish appropriate SOQ levels without the risk of suffering penal charges.
Some Workgroup members do not consider relevant objective c) is furthered by this modification as they do not believe there are licence obligations which specifically require this action.

British Gas does not consider that this Modification Proposal facilitates relevant objective (c), they appreciates the potential financial benefit this Modification may provide current Interruptible customers and their Shippers. However, they do not agree that this benefit is necessarily warranted, and instead believe Shippers should focus on ensuring that customer’s stated SOQ values are as accurate as possible as a way of mitigating any potential ratchet charge.

Both Corona Energy and Shell Gas Direct consider that the proposal will better facilitate the achievement of relevant objective c) as it allows sufficient time to establish appropriate SOQ levels without risk of suffering penal charges thereby maintaining fair competition. Corona then go on to state that at the same time it will ensure competition is not distorted by pure or mainly RBD shippers benefiting from the smearing of these charges.

E.ON however, do not consider that the proposal would better facilitate achievement of the relevant objective c) as it believes implementation would distort competition between shippers and suppliers by potentially allowing some firm DM customers to enter winter 2011/12 without being subject to the established ratchet incentive scheme at a time when other firm DM customers would be.

National Grid Distribution do not agree that the proposal would better facilitate achievement of the relevant objective c) on the grounds that the reasons expressed in the Draft Modification Report are not specific to the discharge of a particular licence requirement and furthermore in their view insufficient arguments have been put forward to adequately demonstrate that implementation would further the relevant objective.

RWE npower believes that the proposal will better facilitate the achievement of both relevant objectives b and c) as it considers that b) is also fulfilled as the proposal would encourage customers to state their true belief of their capacity without inflating the actual in order to avoid ratchet charges. Thus in their view, assisting the economic operation of the pipeline and at the same time provide more accurate SOQ/SHQ data in support of Modifications 0329 and 0390.

Scotia Gas Networks do not consider the proposal would better facilitate achievement of the relevant objective c) as they do not agree with the proposers view that implementation would protect customers who may not be familiar with the forthcoming processes associated with the DM Firm regime.

5 Impacts and Costs

Consideration of Wider Industry Impacts

The Workgroup concluded there were no wider industry impacts.

Costs

It is anticipated that costs will be minimal as the proposal is to continue to charge Ratchet Charges and then reimburse these charges. Xoserve indicative costs are in the region of £50k and it is proposed that Transporters fund these.

In its response, National Grid Distribution commented that contrary to the statement contained within the Draft Modification Report, they do not consider it appropriate that the transporters should fund implementation. However, they acknowledge that given the proposed 'refund' process, the costs involved should not be a significant factor.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• None
Operational Processes	• It is anticipated that impacts will be minimal as the proposal is to continue to charge Ratchet Charges and then reimburse these charges.
User Pays implications	• None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• None
Development, capital and operating costs	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None envisaged

Impact on Transporters	
Area of Transporters' business	Potential impact

Impact on Transporters	
System operation	• This modification removes a financial incentive for the provision of an accurate SOQ. Transporters consider this may create a material risk for the operation of the network. The Proposer does not consider implementation of this modification creates a material risk for Transporters.
Development, capital and operating costs	• None
Recovery of costs	• None
Price regulation	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None
UNC Committees	• None
General administration	• None

Impact on Code	
Code section	Potential impact
Transition Document IIC	Additional paragraph to be added.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None

Impact on UNC Related Documents and Other Referenced Documents	
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

6 Implementation

It is proposed that the modification be implemented as soon as possible to provide surety to industry participants as to how Consumers will be treated from October 2011.

7 The Case for Change

In addition to that identified above, the Workgroup has identified the following:

Advantages

Consumers who are being forced to switch are protected from Ratchet charges for a reasonable period, which will allow them time to establish appropriate SOQ levels without suffering penal charges.

The approach being proposed is consistent with the protection afforded customers voluntarily accessing the DME product and allows an appropriate time for customers to establish suitable levels of SOQ.

Consumers will be provided with a window during which they can establish appropriate levels for SOQ with the relevant Transporter e.g. appeals, re-enforcement works etc.

Disadvantages

Consumers will not be charged for Ratchets, which occur during the "soft landing" window.

This modification removes a financial incentive for the provision of an accurate SOQ. Transporters consider this may create a material risk for the operation of the network.

Some Workgroup members consider daily consumption information is currently available and therefore Users should be aware of the required SOQ for a site. Though this may not be an accurate indicator should a site have alternative fuel capability, as it may not reflect their actual use as a firm site.

Some Workgroup members consider this modification may impact those Users who have proactively managed their sites to ensure they are meeting their UNC obligations by ensuring their sites have an appropriate SOQ, as they will be paying higher charges compared to those who don't and subsequently have their ratchet charges refunded.

8 Legal Text

Draft Legal text

The Workgroup reviewed Draft Legal text provided by the Transporter and a number of amendments were proposed to the text.

Transition Document Part IIC

Add new paragraph 4.4 to read as follows:

"**4.4 Interruptible to Firm - Supply Point Transition**

4.4.1 By no earlier than 18 August 2011 and by no later than 7 September 2011, a User of an Interruptible Supply Point by submitting a Supply Point Reconfirmation shall apply to change its status to a Firm Supply Point on 1 October 2011.

4.4.2 A User of an Interruptible Supply Point may not apply to change its status to a Firm Supply Point with a Supply Point Registration Date on a date between 8 September and 19 October 2011 (inclusive) other than on 1 October 2011.

4.4.3 Where any application by a User of an Interruptible Supply Point to change its status to a Firm Supply Point does not comply with paragraph 4.4.2 it shall be rejected by the Transporter.

4.4.4 Where any User of an Interruptible Supply Point does not apply to change its status to a Firm Supply Point in accordance with paragraph 4.4.1, or where its application is rejected in accordance with paragraph 4.4.3, the User shall be deemed have granted the Transporter the authority to do so on 7 September and the Transporter, by creating a Supply Point Offer and submitting a Supply Point Reconfirmation, shall change the status of an Interruptible Supply Pont to a Firm Supply Point on 1 October 2011.

4.4.5 Where the Transporter creates a Supply Point Offer and submits a Supply Point Reconfirmation pursuant to paragraph 4.4.4 it will include within it all existing details relating to the existing supply Point to generate the Supply Point Offer and Supply Point Reconfirmation.

4.4.6 Where a Proposing User that is not an Existing Registered User submits a Supply Point Confirmation in accordance with TPD Section G2.5.3, with a Proposed Supply Point Registration Date occurring between 8 September and 19 October 2011 (inclusive), in contravention of paragraph 4.4.2, then notwithstanding rejection of such submission in accordance with paragraph 4.4.3, the Proposing User and the Existing Registered User shall each:

(a) notify the Transporter that it believes that an energy reconciliation and adjustment of Transportation Charges is due between the Proposing User and the Existing Registered User, referencing the Proposed Supply Point Registration Date stated above;

(b) as soon as reasonably practicable after 19 October 2011, the Proposing User shall submit a Supply Point Confirmation with a new Proposed Supply Point Registration Date;

4.4.7 In the event of a conflict between the provisions of paragraph 5 and this paragraph 4.4, this paragraph 4.4 shall apply.

Add a new paragraph 6.1.4 to read as follows:

"6.1.4 For the purposes of TPD Section B4.7, in respect of any Interruptible Supply Point which has changed status to a Firm Interruptible Supply Point on 1 October 2011, a Supply Point Ratchet Charge will not apply for a period of 12 months commencing on 1 October 2011 and ending on the 30 September 2012.

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Not in Support
Corona Energy	Support
E.ON UK	Not in Support
Gazprom	Support
National Grid Distribution	Comments
Northern Gas Networks	Not in Support
RWE npower	Support
Scotia Gas Networks	Not in Support
Shell Gas Direct	Support

In summary, of the nine representations received four supported implementation, one provided comments and four were not in support.

Summary Comments

British Gas are unable to support the proposal believing that implementation may impact on the accuracy of data relating to customer's capacity requirements as held by the Network Owners. They go on to suggest that there are more effective alternatives that do not have this potentially negative impact such as proactive engagement by Shippers in the Interruptible to Firm process to establish accurate capacity requirements ahead of the transition. They also consider that were Shippers able to avoid ratchet charges associated with inaccurate SOQs, the existing incentives placed on them to ensure capacity requirements are properly maintained, would be reduced potentially leading to less accurate SOQs and as a consequence, less reliable information about where system capacity is needed.

Corona Energy state that in their view ratchets were created to be a strong incentive for firm LSP customers to avoid putting the system at risk by off taking more gas than they had booked and therefore the system may not be capable of supporting. Established firm customers have previous experience to draw on to avoid these charges and new customers are more likely to have accurate site-works information. As these previously interruptible customers were not subject to these arrangements before they became firm, they are much more likely to accidentally under or overbook capacity. This modification would provide a 'soft-landing' to allow them to book capacity on an equal footing with other users. Additionally, as ratchet charges are smeared back via the 'K' mechanism avoiding a period in which abnormally high charges are levied this will assist the Networks in having stable transportation charges. Additionally, as the sites would be subject to Bottom Stop SOQs this ensures that booked capacity levels would be no less than those used in the previous year, negating the suggestion that shippers should use the previous periods 'daily consumption information'.

E.ON UK were of the opinion that changes to the interruptible regime that see all existing interruptible sites become firm as of 1 October 2011 has been known about since 2007 they cannot see how customers have not had the opportunity to verify their peak load requirements as they have in fact had four years to do so. Furthermore, allowing some customers relief from penalties would seem unfair on others who have worked with their shipper/supplier in order to ensure that appropriate levels of capacity are booked. Implementation of UNC 0374 will see some firm DM customers subject to the ratchet incentive regime while others are not. They also see the parallel with the introduction of the DME regime as being flawed.

As proposer, Gazprom also point out in their response that they consider it is important to recognise that Consumers may take the opportunity to review / change existing arrangements as a result of being forced to change the nature of their supply agreements and this may lead to greater transfer activity around the 1st October than is indicated by historical activity. This could lead to constrained windows for the new Supplier to query and change the SOQ to reflect the Customers actual requirements and therefore may deter Customers from switching from the incumbent.

In providing comments National Grid Distribution (NGD) understand why the proposal has been raised and can empathise with those specific instances where a shipper acquires a site and does not have a good history of daily reads. However, they also note the views of other shippers that the acquiring shipper should ensure that the peak daily load is obtained from the customer at some point during the supply point acquisition negotiations and this is no different to the current situation where a firm, mandatory DM supply point changes hands. For supply points that have not recently changed hands, we see no reason why shippers should not be able to nominate SOQs with confidence. NGD were of the opinion that BSSOQ will prevent any gross under-booking of SOQ and that the SOQ ratchet, (if not the ratchet charge), will continue to operate. They also believe that this is largely a matter for shippers active in the ex-interruptible / new firm market to express views as to how "appropriate" SOQ bookings should be incentivised for this specific market sub-sector.

Northern Gas Networks (NGN) states that whilst they agree with the proposer that customers need ample time to prepare for the stated changes, they consider that shippers have had sufficient time to prepare customers given that the issue was discussed as far back as 2007 for Mod 0090 and therefore another year to prepare should not be necessary. Furthermore, in NGNs, opinion Shippers have had ample time to discuss the implications of the implementation of the final changes to the interruption regime with their customers and make the necessary arrangements to ensure that consumers do not offtake more than their registered capacity during the peak winter months.

RWE npower agrees that allowing a soft landing for consumers on Interruptible reform is a necessary element of interruptible reform. They also feel that it should be recognised that any change to the market arrangements should not inflict a poor result on the consumer. To this end they agree with the Proposer that this UNC modification achieves that aim and allows consumers time to adapt to the new market arrangements.

Scotia Gas Networks are of the view that the implementation of Modification 0090 on the 1st April 2008 signalled to the industry the requirement to review and nominate a reflective SOQ by the relevant Shipper for the 1st October 2011 switch from interruptible to firm supply. This would seem to be an adequate timescale to allow shippers to have undertaken a discussion with their end users on their requirements. They also consider that the Proposers Daily Metered Elective (DME) regime argument is flawed as current interruptible supply points are already included within the DM regime and have already been subject to the requirement to nominate accurate SOQs and SHQs. Furthermore the DME business rules specifically exclude DM supply points switching to DME from being exempt from ratchet charges for this very reason.

Shell Gas Direct agrees that a soft landing approach to ratchet charges for customers forced to change from Interruptible to Firm provides a transitional period in which customers are protected. It is their view that although informed, some customers will not fully appreciate the severity of ratchet charges until a ratchet occurs and they feel that it is fair to provide the customer with the opportunity to amend their requirements appropriately without being subject to penal charges. Additionally, they consider that as ratchet charges will be levied and reimbursed at a later date, suppliers will be incentivised to ensure that customers booked SOQs are accurate in order to minimise exposure to these charges.

10 Panel Discussions

The Chair summarised that, with effect from 1st October 2011, the UNC provides for all Supply Points to be Firm and so charged on a consistent basis. To support transition of the affected Supply Points from Interruptible to Firm status, Modification 0374 proposes a "soft landing" for those sites being forced to transfer from Interruptible to "Firm" Status with effect from 1St October 2011.

This modification proposes that ratchet charges will be levied and then reimbursed for a Site with Interruptible Supply Point status changing to a Firm Daily Metered Supply Point from 1st April 2011 until 31 May 2012, for charges applicable from 01 October 2011 to 31 May 2012.

Some Members noted that the Proposal allows consumers who were previously interruptible and not experienced in the operation of the firm market, the opportunity to establish appropriate SOQs without the risk of facing ratchet charges for a fixed period of time and therefore furthers relevant objective d) as it benefits competition. Other members did not consider this approach furthers the relevant objectives as the industry has been given sufficient notice to manage the transition from interruptible to firm with consumers.

Some Members held opposing views on whether the modification would benefit or distort competition and therefore further relevant objective d), by allowing a market sector to avoid ratchet charges for a fixed period of time, as Shippers may not be able to reflect accurate SOQs for consumers who contract with them from 1st October, as they may not have access to historical information. Other Members considered Transporters would be in a position to provide such information to Shippers where requested.

Some Members were concerned that there may be a negative impact on the operation of the network and the modification would be detrimental to relevant objective a).

Members were unable to identify the licence obligation referred to by the Proposer to further relevant objective c).

In summary, some Members considered the modification benefits competition; other Members considered the modification was detrimental to competition and the operation of the system.

With 2 votes cast in favour and 9 votes against, Panel Members did not determine to recommend that Modification 0374 should be implemented.

Implementation will better facilitate the achievement of **Relevant Objective d.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact

a) Efficient and economic operation of the pipe-line system.	No
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.	No
c) Efficient discharge of the licensee's obligations.	No
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.	Balanced
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	No

11 Recommendations

Panel Recommendation

Panel Members determined to recommend that Modification 0374 should not be implemented.