

## Stage 04: Final Modification Report

# 0458:

## Seasonal LDZ System Capacity Rights

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

The application of Seasonal LDZ System charges in line with seasonal LDZ System Capacity rights for Large Supply Points.



Panel recommended implementation



High Impact: Distribution Networks, Shippers, End Users.



Medium Impact: None



Low Impact: None

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Modification Report

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## About this document:

This Final Modification Report was presented to the Panel on 15 May 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



Any questions?

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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification as it is likely to have a material impact on consumers.

## Why Change?

Under the current UNC arrangements the DN can only offer LDZ Capacity on a firm supply basis for the full 12 months of the gas year on an enduring basis. The DN's licence requires that the network is designed to meet 1:20 year winter conditions. In circumstances where an end user requires a new connection to the DN's network or an existing customer requires additional capacity, but may only require the entire Supply Point capacity for a seasonal period due to operational requirements, the DN must still analyse the whole load as if it were connected for the full 12 months of the gas year. As the DN includes this new connection / additional capacity requirement in its analysis of the network at 1:20 conditions there may be a requirement to reinforce the network to meet this new demand. In reality the end user may not require this LDZ Capacity at 1:20 conditions and hence the reinforcement is not actually required. There may also be existing Large Supply Points which do not require an increase in their capacity but in reality only access the capacity across the summer period. This modification looks to change the current regime to permit new and existing Large Supply Points to have rights to LDZ Capacity for a reduced period (Off-peak) within the gas year potentially avoiding reinforcement costs. The modification also looks to reflect these reduced LDZ Capacity rights in the transportation charges incurred by the Shipper for LDZ System (Capacity) charges.

## Solution

SGN consider an appropriate solution to this issue would be to permit the DN to offer rights to LDZ System capacity to a gas Shipper (on behalf of their end user) for a reduced time period within the gas year to meet the end user's actual seasonal requirement. This modified regime would be restricted to new and existing Large Supply Points with a proposed / existing Annual Quantity greater than or equal to 5,860,000Kwh. The DN would charge the LDZ Customer Charge, LDZ Commodity Charge and the NTS Exit Capacity Charge (ECN) to the Large Supply Point for the full 12 month period, however the LDZ System Capacity Charge would only be applied for the months within the gas year as agreed between the DN, Shipper and the end user to meet this off-peak seasonal requirement.

## Relevant Objectives

Furthers relevant objectives a), b) and c).

## Implementation

No implementation timescales are proposed.

There are no User Pays costs associated with the implementation of this modification.

## 2 Why Change?

### Background

Under current UNC arrangements in circumstances where an end user requests a new connection to the Distribution Network (DN) or an increased capacity requirement at an existing Supply Point the DN will provide a Siteworks quote to allow the Supply Point to burn gas on a firm supply basis. This Sitework's quote may include specific reinforcement costs (to both the customer and / or the DN depending on the outcome of the Economic Test calculation) to ensure that the network can provide the additional capacity requirement at 1:20 year winter conditions. The DN would charge the relevant Shipper LDZ System Capacity charges at the new or existing Supply Point based on the SOQ for the full 12 months of the gas year on an enduring basis. This would be reflected in the end user's Supplier gas bill.

In certain circumstances the DN may receive a new connection request/capacity increase request from an end user who requires the capacity only to be made available for a specific period during the gas year, for example if the end user's requirements are seasonal, such as a seasonal agricultural process load. The current arrangements do not allow the DN to offer rights to the required LDZ capacity for a reduced period of time, e.g. 6 months of the gas year to match this seasonal requirement and also to invoice the LDZ System Capacity charge based on the same reduced period.

As a result the DN must provide a Siteworks quote to the end user for a firm gas supply which may include significant network reinforcement costs to provide 1:20 capacity which is not actually required by the end user.

There may also be existing customers who have a seasonal off peak capacity requirement who do not require an increase in capacity and are currently obliged to hold a 12 month peak capacity commitment. It may also be feasible for these customers to switch to a seasonal product.

Participants consider that incurring costs to reinforce the gas network to meet a new or existing capacity requirement which is not actually required by the end user at 1:20 does not meet the efficient and economic operation of the pipeline system relevant objective. SGN consider a more appropriate solution to be a modification to the UNC to permit the DN to offer capacity for a reduced time period within the gas year to the Shipper/end user to negate the requirement for network reinforcement. Linked to this, SGN consider that as the network capacity would only be provided for a restricted off-peak period during the gas year it would be equitable only to charge based on this restricted off-peak period. The LDZ System Capacity charge, which reflects the capacity costs on the network would reflect the period within the year that the capacity was made available. The LDZ Customer charge, LDZ System Commodity charge and the NTS Exit Capacity charge (ECN) would continue to be charged on the existing basis for the full 12 months of the year. Participants consider these costs would continue to be incurred by the Supply Point and therefore it would be appropriate not to change these arrangements.

### Background to the Solution contained within this UNC Modification Proposal

Participants received a new connection request in December 2012 for a newly connecting large load which would require a substantial network reinforcement project, costing several millions of pounds to provide the additional capacity necessary to meet the new demand at 1:20 year winter conditions. Following discussions with the end user it became apparent that the end user's actual process load requirements only necessitated the capacity being made available for a limited number of months within the gas year.

Their process load requirement is associated with a seasonally linked event which, once analysed on network models, proved not to require network reinforcement outside of the winter period. The time period associated with constructing the network reinforcement to meet 1:20 winter conditions would also be substantial and would delay the end user's access to network capacity and in turn reducing the attractiveness of a gas connection altogether.

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The only option currently open is as follows:

- DNO's to provide a Siteworks response to the customer detailing the network reinforcement costs and timescales associated with the new demand to meet 1:20 conditions.
- This option would entail the construction several kms of reinforcement pipe work costing several million pounds to allow the customer to access their capacity requirement for 12 months of the gas year.
- The customer does not require the capacity to be made available for 12 months of the year and has indicated that the requirement is only for an off-peak timeframe.
- DNO's network is capable of providing the additional capacity without reinforcement during the off-peak timeframe.
- The adoption of this option would result in unnecessary cost and effort to both the customer and DNO.
- The customer's access to their required capacity volume could be unnecessarily delayed due to the timescales associated with the reinforcement project.
- The capacity made available by the reinforcement project at 1:20 winter conditions, although not utilised by the end user, would in effect be sterilised on an enduring basis as the end user would be paying for a firm contract and would have rights to utilise the capacity if they so wished.

### **Current and potential UNC Capacity Interruption options**

For clarification only; the current interruption arrangements (as introduced by Modification 0090) and the greenfield interruption arrangements (as introduced by Modification 0420) are discussed below in relation to this modification. Both the arrangements introduced by Modification 0090 and the arrangements included within Modification 0420 do not provide a suitable solution to the issue of newly connecting seasonal loads or existing Supply Points which only require capacity on a seasonal basis.

### **Arrangements introduced following the implementation of UNC Modification 0090**

Following the implementation of UNC Modification 0090 (Revised DN Interruption Arrangements) on 1<sup>st</sup> April 2008 the option to offer a shipper/end user an enduring interruptible contract was removed. Instead, the option was provided to the DNO to contract for interruption on the network to offset reinforcement costs associated with growth on the network. Although DNOs generally support these arrangements and have been active in adopting the newly modified regime in relation to contracting for interruption, the arrangements introduced by Modification 0090 do not provide an enduring solution to allow the economic connection of new, large seasonal demands. As the Modification 0090 regime is restricted to demands already connected to the system, newly connecting demands would not be able to participate in a DNO contract for interruption until they were actually connected to the network. Also, were the DNO to agree to connect the new demand without reinforcing the network on the basis that once connected the DNO would enter into contractual / commercial interruption terms with the Shipper/end user, the Modification 0090 regime only permits a contractual agreement between the DN and the Shipper for a maximum of 8 years. There is a potential risk that the Shipper/end user would not agree to continuing the interruption agreement past the 8<sup>th</sup> year resulting in significant reinforcement costs to the network which (a) would not actually be required by the end user and (b) should have potentially been funded in part or in whole by the end user during the initial site work's process.

### **UNC Modification 0420 (New Connections Interruptible Loads)**

Modification 0420 allows an interruptible contract to be entered into between the DNO and the Shipper in relation to a new Supply Point to allow the customer to connect to the network prior to the construction of significant network reinforcement as detailed in the Siteworks Agreement. The arrangements Modification 0420 introduced would not provide a solution to the requirements of newly connecting seasonal loads/ capacity increases. Although the implementation of Modification 0420 has permitted greenfield

sites to enter into interruption arrangements with the DNO, the basis of Modification 0420 is only to permit connection to the system until the necessary specific reinforcement has been completed.

### **Restriction to new Large Supply Points**

The changes to the UNC associated with this modification are restricted to new and existing Large Supply Points only with a Proposed or existing AQ  $\geq 5,860,000$ Kwh located on the DNO's network, i.e. not applicable to NTS Supply Points. New and existing Small Supply Points and new / existing Large Supply Points with an AQ  $< 5,860,000$ Kwh are excluded from the changes this modification would introduce as it is considered that a seasonal capacity product would not be attractive to such Supply Points. Also it is less likely that an individual supply point of this size would require future reinforcement to facilitate its new or continued connection to the network. Therefore it is considered that offering the product this modification would introduce to this extent would not be required. The Proposer would however consider expanding the eligibility to participate in the amended regime this modification would introduce for Large Supply Points with an AQ  $< 5,860,000$ Kwh if (a) demand for such product was indicated by Shippers/end users and (b) DNO systems and processes could facilitate this expansion on an efficient and economic basis.

## **3 Solution**

SGN have provided a solution and a set of business rules detailed below for discussion at the workgroup.

The solution associated with this Modification proposal would permit the DN to offer firm network capacity for a reduced period across the gas year as agreed with the end user during the Siteworks process or the Shipper / end user during a capacity referral. This option would only be made available for new and existing Large Supply Points with a proposed or existing AQ  $\geq 5,860,000$ Kwh. The DN would charge the LDZ System charge to the relevant Shipper to reflect the period when the LDZ Capacity was made available.

As the introduction of these arrangements may provide an opportunity for the registered User to reduce the SOQ outside of the restricted capacity period (and hence avoid charges associated with the capacity element of the LDZ Customer charge & the NTS Exit Capacity charge) a 12 month commitment would apply to the registered LDZ Capacity at the Supply Point. Also, currently the Supply Point ratchet rules and LDZ CSEP overrun rules do not apply during the months of June to September (ratchet charges + SOQ ratchet). This would permit a seasonal Supply Point to register a SOQ value which was lower than actually required and hence benefit from non-cost reflective capacity charges. Therefore, the SOQ at a seasonal Supply Point would ratchet in line with actual consumption for 12 months of the year. Following initial discussions with Xoserve a potential solution to allow the timely implementation of the proposal would be to utilise the existing commercial interruption system solution, i.e. the application of a contract stipulating the terms of the arrangement against the Supply Point.

#### Business rules:

1. A qualifying Supply Point opting to be a seasonal Supply Point (once agreed with the DN) would be defined as a Seasonal Large Supply Point (SLSP).
2. These modified arrangements would only apply to new and existing Large Supply Points with a Proposed or existing Annual Quantity  $\geq 5,860,000$ Kwh.
3. The new SLSP must be Daily Metered and would be classified as a Mandatory DM Supply Point.
4. The SLSP would be permitted to access the registered Supply Point Capacity during a Restricted Capacity Period (RCP) and the SLSP would not be permitted to access the registered capacity outwith the RCP as specified in the Siteworks Agreement and / or the NExA.
5. The RCP would be defined and set by the DN for each SLSP and would commence on or after 1<sup>st</sup> April and terminate on or before 30<sup>th</sup> September of the same calendar year.

6. If the RCP could not provide the registered capacity and / or capacity across the correct time period for the end user's requirements then the existing Siteworks / UNC arrangements would apply and the Supply point would not qualify as a SLSP.
7. Were the SLSP to access network capacity outwith the RCP the Shipper would be charged the Annual Rate of the LDZ Capacity Charge multiplied by the volume offtaken for each day of the occurrence.
8. The arrangements would be incorporated into a Network Exit Agreement (NeXA) which would stipulate the Network Exit Provisions and where applicable a Siteworks Agreement between the DN and Siteworks Applicant.
9. The DN will charge the LDZ System Capacity Charge for the months where the DN makes the capacity available to the SLSP reflecting the RCP.
10. All other DN transportation charges would be invoiced to the SLSP following existing rules.
11. The User would nominate the SOQ and SHQ value annually to commence on the first day of the RCP. Where no nomination occurs the existing SOQ/SHQ would roll over.
12. The SOQ value at the SLSP would be registered for 12 months from the first day of the RCP each year and could not be reduced or increased (except via a ratchet occurrence) prior to the first day of the RCP in the following year.
13. The SOQ value at a SLSP would ratchet in line with actual consumption for 12 months of the year. Ratchet charges would apply for 12 months of the year.
14. LDZ CSEP Overrun rules would apply for 12 months of the year for Seasonal LDZ Metered CSEPs.
15. Any requested change to the terms and conditions included in the Siteworks agreement / NeXA relating to modifications to the RCP or registered LDZ Capacity (SOQ and SHQ) would require a referral to the DN and subsequent DN confirmation of the change.
16. The current Bottom Stop SOQ rules would continue apply to a SLSP.
17. NTS Supply Points are excluded from these arrangements.
18. LDZ CSEPS are included within these arrangements.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
Not User Pays as this modification will not amend or create a User Pays service
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.
Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
Not applicable

## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives:</b>	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	Positive
c) Efficient discharge of the licensee's obligations.	Positive
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.	None
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.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

### a) Efficient and economic operation of the pipe-line system

The Workgroup considers this modification would have a positive impact on the efficient and economic operation of the pipeline system in two ways:

- (1) Unnecessary expenditure, both by the DNO and potentially the Siteworks Applicant on pipeline reinforcement to facilitate capacity, which is not required would be avoided.
- (2) By providing the option to utilise off peak capacity only (without the cost of making peak capacity available at the same time) the DNO would be encouraging the more efficient use of exiting capacity thereby furthering the efficient and economic operation of the pipe-line system.

### b) Coordinated, efficient and economic operation of (i) the combined pipeline system

The Workgroup considers this modification would positively impact on the efficient and economic operation of the combined pipeline system in the following manner: Capacity bookings made with National Grid Transmission to reflect the Distribution Network's total capacity requirement on the National Transmission system, are booked on an annual basis and reflect the peak requirement on the DNO's network. The bookings are made on a flat volume value across the year; therefore the off peak/summer bookings are in excess of the actual requirement on the DNO's network. The implementation of this modification would allow the DNO to make more efficient use of the excess off-peak NTS Exit capacity bookings whilst reducing the requirement to increase the peak winter bookings and therefore further the coordinated, efficient and economic operation of (i) the combined pipeline system.



**c) Efficient discharge of Licensee's obligations.**

Transporters' licence requirements (Standard Special Condition A9: Pipe-Line System Security Standards) oblige them to meet 1 in 20 year capacity provision on their networks through the most efficient and economic means possible. The Workgroup considers that the implementation of this modification would offer an additional opportunity to achieve this requirement by utilising seasonally available capacity and therefore further the efficient discharge of Licensee's obligations.

## 5 Implementation

The Workgroup has not proposed a timescale for implementation of this modification, but would suggest that it is implemented at the earliest practical opportunity.

## 6 Legal Text

### Text

The legal text has been provided in response to a request from the Panel and is published alongside this Modification Report.

The Workgroup is satisfied that this Text achieves the intent of this Modification

## 7 Consultation Responses

Of the eight representations received, seven supported implementation and one offered qualified support.

Representations are published alongside the Final Modification Report.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
DONG Energy	Support	a - positive b - positive c – positive d – no comment	Will enable certain customers to utilise a Seasonal LDZ Capacity product that reflects their capacity requirements for a seasonal period during the summer. Will remove the need for unnecessary reinforcement of the network and associated costs.
E.ON	Qualified Support	a - positive b – no comment c - no comment d – no (see comment, right)	Efficient use of the network at a time that gas demand is lower, whilst not burdening any potential new customer, who has a seasonal gas need, with any unnecessary reinforcement requirements.  <u>Objective d:</u> Currently no customers have been identified, in data analysis carried out by Xoserve, whose usage patterns meet the profile of this potential product and who could therefore take advantage of it. It might however attract new types of customers into the market, but until the product is created and made available it cannot create a competitive arena for suppliers or shippers to compete in and cannot therefore facilitate competition between shippers or suppliers.
Gas and Utility Technology Ltd	Support	a - positive b - positive c – positive d – no comment	Eliminates requirement for unnecessary system reinforcement for seasonal loads and associated costs, for the network owner/gas user.  Introduces required flexibility to enable network owners to operate and develop their networks in a more effective and efficient manner through providing the framework to assist in addressing the system over capacity in the summer period.  As a result of the recognisable commercial benefits associated with the implementation of the seasonal load modification, once this facility is in place, it is believed innovation over time will result in a significant take up of this facility.

Gazprom Energy	Support	a - positive b - positive c – positive d – no comment	The introduction of a “Seasonal LDZ Capacity Rights” product will better reflect the actual “Off peak” use of capacity by certain Users, and will avoid the need for unnecessary re-enforcement which is currently triggered as these Users are deemed to require capacity during “Peak” periods.
National Grid Distribution	Support	a - positive b - positive c – positive  d – positive (see comment, right)	It is desirable to utilise the system during the summer months, where the distribution network is able to facilitate such an arrangement, and for this particular customer the provision of these new arrangements would appear to be critical to their decision to connect to gas or not. It is important for GDNs to be innovative in considering the use of the existing system and to consider how they can facilitate efficient connection in line with feedback from stakeholders.  <u>Objective d:</u> It is possible to envisage promotion of competition between shippers following implementation of this modification. Shippers may review their existing contracts and consider introducing new terms and marketing to a new category of consumer. Existing customers who may be able to avail themselves of these arrangements may shop around between different shipping organisations, seeking the best transportation terms available.
RWE npower	Support	a - positive b - positive c – positive  d – no (see comment, right)	Avoids unnecessary costs for the consumer from unnecessary reinforcement of network connections due to inherent seasonal differences in the way specific consumers may use gas.  <u>Objective d:</u> This modification is purely about ensuring efficient use of existing networks where the consumer’s demands may vary seasonally. RWE cannot see that it has any discernable impact on competition or therefore objective d.
Scotia Gas Networks	Support	a - positive b - positive c – positive  d – positive (see comment, right)	The proposed changes will provide a basis for the more efficient use of off peak, summer network capacity, present on specific parts of the gas distribution network. It will also provide a more efficient and economic platform for specific new connections to the distribution network who may only require access to network capacity for a restricted off peak summer time period.  <u>Objective d:</u> May further Relevant Objective (d) (i) (securing competition between relevant shippers) by providing the opportunity for specific Shippers to offer new contractual terms relating to off peak capacity products.

SSE		a - positive b - positive c – positive  d – no (see comment, right)	Allows large customers to use spare capacity in the summer months only and this usage would then not be included within the winter calculation of capacity requirements. This would obviate the need to reinforce the system and so avoid potentially significant capital investment.  <u>Objective d</u> : SSE does not believe that this modification furthers relevant objective (d) as the transportation costs to all Shippers for customers under these arrangements would be the same.
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## Other Comments

### Legal Text – Interaction with other ‘in flight’ Modifications

National Grid Distribution counselled that, should this modification be implemented, the legal text in relation to Bottom Stop SOQ (TPD Section G 5.2.3) would need to be checked in the context of Modifications 0445 and 0478. For example 0445 proposes to remove the Bottom Stop rules and 0478 allows SOQ bookings below the prevailing Bottom Stop SOQ, and therefore some consideration would need to be given as to how this modification and these other two proposals interact.

### Clarification of Customer Application/Access Period

Gazprom commented that, assuming the modification is implemented before 30 September 2014 it may be helpful to clarify that Users can access the product during the remaining 2014 “Off Peak” season. It would also be helpful to confirm if in future seasons Users are able to access the product during the “Off Peak” season or have to apply for the product prior to the relevant “Off Peak” season commencing.

### No restriction of a customer’s ability to offtake gas outside an agreed period

E.ON was concerned that there are no provisions within the proposal to restrict the ability of the site to offtake gas outside the agreed period, only to apply a financial penalty when discovered.

### Implementation

E.ON pointed out that the implementation timeframe needs to be mindful of the seasonal nature of the product and will need to have the arrangements in place in time to offer this to customers so that adequate notice can be given by shippers and suppliers to enable customers to contract in sufficient time.

Gas and Utility Technology, whose client’s seasonal load requirements was the catalyst for the origination of this modification proposal, would appreciate the earliest implementation date achievable to enable it to progress its client’s connection application and complete installation of the client’s gas supply system during the current year.

## 8 Panel Discussions

The Panel Chair summarised that Modification 0458 permits LDZ DM consumers to hold, and pay for, DN capacity for part of the year (Off-peak). This potentially avoids reinforcement costs for the DN because the licence requires networks to meet 1:20 peak conditions.

Members considered the representations made, noting that, of the eight representations received seven supported implementation and one offered qualified support. Acknowledging that relevant objectives (a), (b) and (c) would be positively facilitated, Members had additionally sought industry opinion on whether or not relevant objective (d) was furthered. It was recognised, however, that not all respondents had commented on this aspect and the views expressed by those who did were mixed.

Panel members noted that there was some concern regarding the potential interaction of current 'in flight' modifications, specifically Modifications 0445 (Amendments to the arrangements for Daily Metered Supply Point Capacity) and 0478 (Filling the gap for SOQ reductions below BSSOQ until Project Nexus), and whether these would affect the validity of the legal text as currently drafted. It was confirmed that the text for Modification 0458 was not dependent on either of these modifications and that any anomalies should be addressed by the relevant workgroups.

Members voted unanimously to recommend implementation of Modification 0458.

## 9 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0458 should be made.