

Modification proposal:	Uniform Network Code (UNC) 478: Filling the gap for SOQ reductions below BSSOQ until Project Nexus (UNC478)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	23 May 2014	Implementation Date:	1 October 2014

Background

Under the rules of the Uniform Network Code (UNC), gas customers' Supply Points may be categorised as either Daily Metered (DM) or Non-Daily Metered (NDM). For the latter the capacity charge is calculated using a combination of the relevant Annual Quantity (AQ)³ and End User Category to derive the Supply Point Offtake Quantity (SOQ)⁴. For DM Supply Points, the capacity charge is calculated using the SOQ nominated by the Shipper/Supplier.

Since individual NDM customers' gas usage has less impact on the network there is provision under certain circumstances for the derived SOQ and hence capacity charges to be reduced. However, the SOQ of DM Supply Points can only be reduced within a specified time period between October and January each year. There are also UNC rules preventing the DM SOQ from being less than the 'Bottom Stop Supply Point Offtake Quantity' (BSSOQ)⁵, a measure equal to the peak gas offtaken in the previous winter.

Therefore, under the current UNC arrangements, if a DM customer wishes to reduce their capacity charge by reducing the maximum rate at which gas can be taken from the system, this may be restricted by the historic levels of daily peak gas off-take.

Some DM customers have argued that these rules are too restrictive and can lead to customers paying charges for capacity that does not reflect their use of the network.

Related modifications

In November 2009, National Grid Gas Distribution raised an urgent Modification Proposal UNC275.⁶ As a result of the economic downturn at the time, some customers were experiencing an unprecedented drop in gas demand but were constrained by a BSSOQ that did not reflect their expected capacity usage. UNC275 allowed DM users to reduce, for a limited period only, their SOQ to below that of the BSSOQ to better reflect their actual gas usage. The purpose was to provide flexibility to customers whose gas consumption had dropped but who would be unable to reduce their capacity below the BSSOQ in the short term.

UNC275 only allowed a customer to reduce their capacity to below the prevailing BSSOQ once during each capacity reduction period (1 October – 31 January). The arrangements

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ The Annual Quantity (AQ) is the annual consumption at a supply point.

⁴ Supply Point Off-take Quantity (SOQ) is the maximum peak day flow.

⁵ Bottom Stop SOQ (BSSOQ) is the highest value of peak day flow (SOQ) measured for the previous year.

⁶ The Modification Proposal papers can be found here: <http://gasgovernance.co.uk/0275>

in UNC275 lasted until the end of the 2010/11 capacity reduction (ending 31 January 2011)

We approved UNC 275⁷ concluding that its implementation would better facilitate the achievement of the relevant objectives of the UNC, and would be consistent with our principal objectives and statutory duties. We also noted that further work was proposed to develop an enduring modification to make permanent changes to the UNC.

In December 2011, British Gas raised Urgent Modification UNC405 to extend the arrangements put in place by UNC275 for the 2011/12 capacity reduction period (1 October 2011 – 31 January 2012), which we approved.⁸

Northern Gas Networks (NGN) considers that the end of the temporary arrangements put in place by UNC405 (and with no enduring solution yet in place) left a gap which became apparent during the 2012/13 and 2013/14 capacity reduction periods. A number of customers were restricted from reducing capacity as a result of the return to previous operating arrangements following the expiry of UNC405.

In July 2013, National Grid Gas Distribution raised Modification UNC445 proposing an enduring solution to remove the BSSOQ from the UNC arrangements. UNC445 is currently under discussion through the UNC modifications process. If we were to approve UNC445, it would not be implemented until the central systems are replaced with the Project Nexus⁹ changes and new infrastructure at the Project Nexus Go Live Date¹⁰.

The modification proposal

NGN proposed UNC478 in January 2014 to extend the temporary arrangements originally put in place by UNC275 in 2009 (and then further extended by UNC405 in 2011).

NGN proposes that these arrangements are restored for the 2014/15 capacity reduction period until the Project Nexus Go Live Date. These arrangements will be given effect through a manual exceptions process as was used under the UNC275 and UNC405 temporary arrangements.

UNC Panel¹¹ recommendation

At the UNC Modification Panel meeting held on 17 April 2014, the Panel unanimously voted in favour of implementing UNC478.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 April 2014. We have also considered and taken into

⁷ The decision letter can be found on our website here:

<http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Documents1/UNC275D.pdf>

⁸ The UNC405 decision Letter can be found here: <https://www.ofgem.gov.uk/publications-and-updates/uniform-network-code-unc-405-bottom-stop-supply-point-offtake-quantity-soq-appeal-mechanism-201112>

⁹ Project Nexus aims to ensure that the systems operated by Xoserve that underpin the competitive gas market meet the current and anticipated business requirements of participants in that market.

¹⁰ Defined in the UNC as being 1 October 2015. See our latest decision letter:

<https://www.ofgem.gov.uk/ofgem-publications/87795/unc491final.pdf>

¹¹ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

account the responses to the Joint Office's consultation on the modification proposal which were attached to the FMR¹² and have concluded that:

- a. the implementation of this modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹³; and
- b. directing that the modification be made is consistent with the Authority's principal objective and statutory duties.¹⁴

Reasons for our decision

We have assessed the proposed modification against UNC Relevant Objectives a) and d) below. We consider it has no impact on the other objectives.

We think that in the longer term an appropriate enduring solution is the best way to address the issue identified by this and preceding modifications. We expect the industry to bring forward an enduring solution alongside implementation of Project Nexus. We note that progress has been made on an enduring solution through UNC445 which is currently being discussed in working groups and will come to us for a decision in due course.

Relevant objective (a) – the efficient and economic operation of the pipe-line system

Under the current capacity booking arrangements (now that UNC405 has expired), if customers experiencing a drop in gas usage to below the BSSOQ seek to reduce their capacity charges outside the specified time period, the only route open to them is to vacate the site or disconnect from the gas network. This would result in parts of the network not being used which would be detrimental to the efficient operation of the pipeline system.

Knowing what the SOQ of a site will be, in advance, helps facilitate the efficient and economic planning of the pipe-line system. For example where SOQs are falling due to significant and specific changes in usage, knowledge of this in advance could prevent inefficient investment taking place.

Relevant objective (d) – the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators and relevant shippers

We consider that implementing the modification proposal will facilitate this relevant objective, as, by recognising a customer's real needs, the market as a whole can operate in a more effective and competitive way. Allowing shippers to book capacity which more accurately reflects future demand ensures that more appropriate charges can be levied. This helps facilitate effective competition between relevant shippers and between relevant suppliers.

¹² UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at: www.gasgovernance.co.uk.

¹³ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹⁴ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

We note that these arrangements could result in DM customers paying for less capacity than under the current arrangements. Where this is the case, the costs of the underutilised capacity is to be recovered from the remainder of the customer base including domestic and other NDM customers. However, without the arrangements outlined in this modification, there is a higher risk that some DM customers may cease to use the network, which would lead to the remainder of customers bearing an even greater redistribution of costs.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 478 '*Filling the gap for SOQ reductions below BSSOQ until Project Nexus*' be made. We direct that the modification comes into force by 1 October 2014 until the Project Nexus Go Live date.

Dora Guzeleva

Head of Networks Policy, Local Grids.

Signed on behalf of the Authority and authorised for that purpose