

## Stage 01: Modification

# 0478:

## Filling the gap for SOQ reductions below BSSOQ until Project Nexus

At what stage is this document in the process?

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

UNC Modifications 0275 and 0405 implemented temporary arrangements to reduce a SOQ below the BSSOQ which have now expired. UNC Modification 0445 removes the BSSOQ concept from the Project Nexus Go Live Date. This Modification 0478 seeks to fill the gap so that SOQs can be reduced below BSSOQ from October 2014.

The Proposer recommends that this modification should:



- Not be subject to self-governance; and
- Issued to consultation.



High Impact: Affected consumers



Medium Impact: Distribution Networks, Shippers



Low Impact: Transporters' Agent

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## About this document:

This modification will be presented by the Proposer to the Panel on 20 February 2014.

The Panel will consider the Proposer's recommendation and agree whether this modification should be:

- issued for consultation.



Any questions?

Contact:  
Code Administrator



[enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)



0121 288 2107

Proposer:  
Joanna Ferguson



[jferguson@northerngas.co.uk](mailto:jferguson@northerngas.co.uk)



07883 099616

Transporter:  
Northern Gas Networks

Systems Provider:  
Xoserve



[commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

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# 1 Summary

## Is this a Self-Governance Modification?

Northern Gas Networks (NGN) does not believe that this meets the self-governance criteria as it will have a material effect on existing gas consumers (aa).

## Why Change?

In 2009 Urgent Modification 0275 was raised by National Grid Distribution to address specific issues arising from the constraint placed on Daily Metered (DM) Supply Points which does not allow them to reduce their LDZ Exit Capacity where significant changes to their usage was identified. The process that was implemented involved an ad-hoc appeal by the Relevant User to reduce both their BSSOQ and their SOQ to be equal to each other and at a level below the BSSOQ.

In December 2011, British Gas raised Urgent Modification 0405 to extend the arrangements put in place by Modification 0275 for a further year, which was approved.

These arrangements have now expired.

In 2013 National Grid Distribution raised Modification 0455 to make permanent arrangements for the BSSOQ to be removed, unfortunately these arrangements are not planned for implementation, if so directed by the Authority, until the central systems are replaced with the Project Nexus changes and new infrastructure – UK Link Replacement – at the Project Nexus Go Live Date.

Northern Gas Networks (NGN) believes that this leaves a gap which has become apparent during the 2013 Capacity Reduction Period with a number of consumers being restricted from reducing capacity as a result in changes in operating arrangements. This restriction will remain in place from the 2014 Capacity Reduction Period until the Project Nexus Go Live Date.

## Solution

Northern Gas Networks (NGN) is aware that the previous arrangements were carried out by a manual exception process. This solution was appropriate to swiftly implement transitional arrangements and as this change is also seeking temporary arrangements it is appropriate to reuse the same functionality.

## Relevant Objectives

NGN believes that this modification would better facilitate the following relevant objectives:

A11.1 (a): Efficient and economic operation of the pipe-line system

Understanding the SOQ is essential to efficient and economic planning of the pipe-line systems. Where SOQs are falling due to significant and specific changes in usage knowledge of this in advance could prevent inefficient investment taking place.

A11.1 (c): Efficient discharge of the licensee's obligations

Gas Transporters have several references to provision of economic and efficient pipelines including planning processes to ensure that peak day capacity is adequately planned for. By allowing SOQs to reduce below the BSSOQ quicker than would otherwise be allowed will enable DNOs to make plans at an earlier stage where a reduction in overall capacity would change behaviour.

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## Implementation

No implementation timescales are proposed, however 01 October 2014 would be desirable in order to provide sufficient lead time to allow Xoserve to reinstate the previous processes required to meet the business rules.

## 2 Why Change?

In 2009 Urgent Modification 0275 was raised by National Grid Distribution to address specific issues arising from the constraint placed on Daily Metered (DM) Supply Points which does not allow them to reduce their LDZ Exit Capacity where significant changes to their usage was identified. The Modification cited the adverse economic conditions at this time as an underlying cause for some companies to need to reduce gas usage significantly without the need for cessation. The Modification was implemented for a two (2) year transitional period with the expectation that economic conditions would be likely to have stabilised in this time. The Bottom Stop Supply Point Capacity (BSSOQ) is a measure equal to the peak gas offtaken in the previous winter and this is used as the cut-off by which reductions in Supply Point Capacity (SOQ) cannot be below. The process that was implemented involved an ad-hoc appeal by the Relevant User to reduce both their BSSOQ and their SOQ to be equal to each other and at a level below the BSSOQ.

In December 2011, British Gas raised Urgent Modification 0405 to extend the arrangements put in place by Modification 0275 for a further year. The ongoing economic climate has resulted in industrial users continuing to need to make decisions to significantly reduce their activity and receive relief from Transportation Charges without requiring complete cessation. In the Authority decision letter to implement Modification 0405 they noted that this was a further extension of transitional arrangements and sought industry interest to consider whether an enduring arrangement may be suitable and required.

These arrangements have now expired.

In 2013 National Grid Distribution raised Modification 0455 to make permanent arrangements for the BSSOQ to be removed, unfortunately these arrangements are not planned for implementation, if so directed by the Authority, until the central systems are replaced with the Project Nexus changes and new infrastructure – UK Link Replacement.

Northern Gas Networks (NGN) believes that this leaves a gap which has become apparent during the 2013 Capacity Reduction Period with a number of consumers being restricted from reducing capacity as a result in changes in operating arrangements. This restriction will remain in place for the 2014 Capacity Reduction Period as the “Project Nexus Go Live Date” is not expected until October 2015 at the earliest. While Modifications 0275 and 0405 were implemented on a time restricted basis due to the wider economic environment NGN acknowledges that there may be reasons other than the continued economic downturn that could lead to a requirement for SOQ to be reduced significantly and seeks to reuse the arrangements made for Modifications 0275 and 0405 to put in place an regime that will fill the gap until the Project Nexus Go-live Date comes into force. The 0445 Workgroup acknowledges that this gap will exist and suggested that should there be a requirement the previous Transition Document rules could easily be resurrected<sup>1</sup>, which this Modification seeks to do.

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<sup>1</sup> <http://gasgovernance.co.uk/sites/default/files/Minutes%200445%20281113%20v1.0.pdf>

## 3 Solution

### Business Rules

Northern Gas Networks (NGN) is aware that the previous arrangements were carried out by a manual exception process. This solution was appropriate to swiftly implement transitional arrangements and as this change is also seeking temporary arrangements it is appropriate to reuse the same functionality.

Business Rules based on those from previous Modifications:-

1. The 'appeal' may only be effected during the Capacity Reduction Period (1 October to 31 January) from 1 October 2014 until Project Nexus Go Live Date
2. To be valid, an appeal must seek to set both the SOQ and BSSOQ to be equal, and below the prevailing BSSOQ
3. The appeal may also include a change to the SHQ which must remain within the existing ratios as permitted in UNC TPD Section G5.4.1
4. The Registered User is required to obtain and provide to the Distribution Network Operators agent a signed letter of consent from the relevant end consumer providing the following information:
  - a. The anticipated peak daily load for the whole Gas Year to which the initial appeal relates
  - b. The reason/s for the change in peak daily load (e.g. plant change, down turn in production, alternative fuel arrangements)
5. One such successful appeal will be permitted for each relevant Supply Point in each Gas Year regardless of other changes such as change of Registered User
6. At any time after the successful appeal the User may utilise the existing arrangements to increase the SOQ above the level set by the appeal
7. Existing arrangements within UNC TPD Section B4.7 will apply (Supply Point Ratchet)

#### User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.

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.

N/A

Proposed charge(s) for application of User Pays charges to Shippers.

N/A

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

N/A

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## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
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.	None
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

### A11.1 (a): Efficient and economic operation of the pipe-line system

Understanding the SOQ is essential to efficient and economic planning of the pipe-line systems. Where SOQs are falling due to significant and specific changes in usage knowledge of this in advance could prevent inefficient investment taking place. There are already requirements to notify DNOs for increases in requirements which trigger specific network analysis that then feeds into business planning. Knowledge of confirmed reduced load can also trigger specific re-analysis of works planned to be undertaken, thereby reducing unnecessary expenditure on the network. These investments may typically be associated with long-lead projects, and early formal confirmation of reduced contractual loads could reduce unnecessary spend on design works and forward procurement of materials.

### A11.1 (c): Efficient discharge of the licensee's obligations

Gas Transporters have several references to provision of economic and efficient pipelines including planning processes to ensure that peak day capacity is adequately planned for. By allowing SOQs to reduce below the BSSOQ quicker than would otherwise be allowed will enable DNOs to make plans at an earlier stage where a reduction in overall capacity would change behaviour. Such instances could be to remove or reduce needs for building increased capacity in a specific zone and this knowledge could be critical in making decisions relating to the procurement of interruptible rights from Users.

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## 5 Implementation

No implementation timescales are proposed, however 01 October 2014 would be desirable in order to provide sufficient lead time to allow Xoserve to reinstate the previous processes required to meet the business rules.

## 6 Legal Text

### Suggested Text

#### UNC Transition Document: Part IIC Transition Rules (*changed marked*)

##### 1.9.1 TPD Section G5.2

Until 0600 on ~~4 October 2014~~ the “Project Nexus Go Live Date” but not thereafter, for the purposes of TPD Section G5.2:

(a) Notwithstanding TPD Section G5.2.1, 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 each the Capacity Reduction Period ~~for~~from the Gas Year commencing 1 October ~~2009~~2014, and once for the Capacity Reduction Period for the Gas Year commencing 1 October 2010, once for the Capacity Reduction Period for the Gas Year commencing 1 October 2011.

(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 ~~4 October 2012~~ the Project Nexus Go Live Date.

## 7 Recommendation

The Proposer invites the Panel to:

- Issue to consultation.

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