

Stage 04: Final Modification Report

0478:

Filling the gap for SOQ reductions below BSSOQ until Project Nexus

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.

At what stage is this document in the process?



Panel consideration is due on 17 April 2014



High Impact: Affected consumers



Medium Impact: Distribution Networks, Shippers



Low Impact: Transporters' Agent

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About this document:

This Final Modification Report will be presented to the Panel on 17 April 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 because it is likely to have material effect on existing gas consumers.

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.

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.

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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 resurrected¹, which this Modification seeks to do.

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¹ <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

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.

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

Text

The following text, prepared by Northern Gas Networks, was confirmed formal Text at the February UNC Modification Panel meeting; no issues had been raised by the Workgroup regarding its content.

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 Consultation Responses

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
DONG Energy Sales UK	Support	a) - positive c) - positive	It will allow customers to reduce their SOQ below the BSSOQ to reflect actual usage.
Eastman Chemical Workington Ltd	Support	-	Enables a positive improvement to commercial arrangements in particular circumstances.
ENI	Support	a) - positive	-
E.ON UK	Support	a) - positive c) - positive	It resolves a gap in the arrangements for capacity reduction that will be re-introduced when Project Nexus is delivered, which is currently not permitted.
Gazprom	Support	a) - positive c) - positive	It reinstates the arrangements put in place through Modifications 0275 and 0405, both of which have expired. Gazprom would also like to see the ability to apply for a reduction to be available prior to the proposed implementation date of 01 October 2014. This will allow consumers who have been impacted by the falling away of arrangements for winter 2013/14 to go through the administrative processes necessary prior to October so all parties can be in a position to enact changes from 01 October 2014.
Major Energy Users Council (MEUC)	Support	-	Even if the change is of benefit to only a single DM site it should still be made.
National Grid Distribution	Support	a) - positive c) – positive and also (d) - positive	It is believed that the UNC should provide appropriate incentives and provide mechanisms to ensure that costs are correctly allocated between Shippers and that charges are proportional to network use; robust UNC rules are essential in this regard. However, a relaxation of those rules to permit an element of SOQ rebasing, to reflect a significant change to the pattern of use, continues to be justifiable to cover the period until Project Nexus implementation, when an enduring solution may be implemented.
Northern Gas Networks	Support	a) - positive c) - positive	Implementation of this modification will provide a stop-gap function until the implementation of Project Nexus and the removal of the BSSOQ. This will free Relevant Users from the restrictions of the existing arrangements whereby they cannot reduce capacity as a result of changes in operating arrangements.

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RWE Npower	Support	a) - positive c) - positive	A sensible approach that allows for flexibility for Daily Metered end consumers to be able to reduce their capacity reservation that is more reflective of their current capacity usage. It is a positive step for end consumers; should the end consumer have reduced consumption but could not reduce capacity below the BSSOQ, they would ultimately be penalised. RWE would consider this to be unfair and would like to see a mechanism to be able to set it lower. This modification will act as an enduring solution for what previous Modifications 0275 and 0405 previously achieved.
Scotia Gas Networks	Support	a) - positive c) - positive	Allowing an SOQ to be reduced below the BSSOQ more quickly than otherwise would have been allowed will give the DNOs the opportunity to plan their networks more efficiently. This modification supports networks in the efficient targeting of investment on their networks, which could otherwise result in costly reinforcement projects being required to support a demand that is no longer being placed on the network. Network reinforcement on sensitive parts of the network may not be required or it could mean that interruption contracts will not have to be negotiated with end users.
Wales & West Utilities	Support	-	WWU's support links back to the approval of Modification 0405. WWU support Ofgem's comments in its decision to implement UNC Modification 0405, in which they state that by recognising a customer's real needs, the market as a whole would operate in a more effective and competitive way. This modification supports these principles.

Eleven representations were received and implementation was unanimously supported.

Summary Comments

No new issues were identified.

Views on Implementation

NGN (as Proposer) supports the lead-time of a preferable implementation date of 01 October 2014 allowing sufficient lead-time to allow Xoserve to reinstate the previous processes required to meet the business rules.

National Grid Distribution and Scotia Gas Networks were of the opinion that implementation ahead of October 2014 is appropriate to give interested parties the assurance that the regime will be in place for winter 2014/15.

ENI believes the modification should be implemented as soon as reasonably practical to allow appeal in the next capacity reduction window opening on 01 October 2014.

E.ON would like to see this modification implemented as soon as possible to address a gap in the market arrangements that will be corrected by Project Nexus.

Additional Issues Identified in Responses

Gazprom would like to be able to apply for a reduction from 01 October 2014 prior to the proposed implementation date of 01 October 2014. This will allow consumers who have been impacted by the falling away of arrangements for winter 2013/14 to go through the administrative processes necessary to be in a position to enact changes from 01 October 2014.

8 Panel Discussions

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9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends

- that proposed Modification 0478 [should/should not] be made.