

CODE MODIFICATION PROPOSAL No xxxx
Removal of Bottom Stop SOQ and Changes to the Application of Supply Point Ratchets
Version x.x

Date: 20/01/2010

Proposed Implementation Date: 01 October 2011

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Review Group 0264 “Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points” is currently discussing the appropriateness of the arrangements that determine the Registered User’s ability to reduce Registered Capacity at a Daily Metered (DM) Supply Point¹. The Review Group has considered a number of options for developing the LDZ exit capacity regime in anticipation of Interruption Reform commencing 1st October 2011. [The Group believes that the arrangements described below represent a pragmatic approach].

Bottom Stop SOQ – Charging at Interruptible Supply Points

The Bottom Stop Supply Point Capacity (or Bottom Stop SOQ) is defined within UNC TPD section G5.2.3 as: “...*in respect of a DM Supply Point Component is...the amount (the "Preceding Year Maximum Capacity") which is the highest User SPDQ for any Day (other than a Day in the months of June to September inclusive) in the Preceding Year...*”

Prior to implementation of UNC Modification 0210, which revised the apportionment of Transportation Capacity and Commodity charging, Interruptible Supply Points were not subject to Transportation Capacity charges (based on Registered Capacity) and as such only incurred Commodity charges based on kWh throughput.

The Commodity charge unit rate for Firm Supply Points is determined by Registered Capacity (the higher the Registered Capacity, the lower the unit rate charge). If the unit rate for Commodity charges in respect of Interruptible Supply Points was determined on the same basis, an incentive may exist for Users to overstate Registered Capacity to attract a lower unit rate charge. This same incentive does not apply in respect of Firm Supply Points as such Supply Points incur Capacity charges based on the Registered Capacity.

¹ More detailed explanation of the background and drivers for Review Group 0264 can be located at: <http://www.gasgovernance.co.uk/0264>

To address the issue highlighted above, the unit rate charge for Interruptible Supply Points is determined by the Bottom Stop SOQ, and not the Registered Capacity. This aspect of the arrangements is specified within UNC Transition Document Part IIC 6.1.3. Such arrangements are transitional as Interruptible Supply Points will cease to exist with effect from 1st October 2011 as a consequence of the application of UNC Modification 0090.

Subsequent to the implementation of Modification 0210, Interruptible Supply Points are subject to Capacity charges and therefore the costs of overstating Registered Capacity (in terms of incurring Capacity charges) outweigh any unit rate benefit in respect of Commodity charges.

Therefore, National Grid Distribution (NGD) believes that use of the Bottom Stop SOQ to determine the unit rate for Commodity Charges is no longer required following the introduction of Capacity charging at Interruptible Supply Points.

Bottom Stop SOQ – Registration of Sufficient Capacity

An additional purpose of the Bottom Stop SOQ is to prevent prospective registration of insufficient capacity at an Interruptible Supply Points. Whilst application of Supply Point Ratchets to DM Firm Supply Points provides a significant incentive to register sufficient Supply Point Capacity at such Supply Points, Interruptible Supply Points are not subject to a Ratchet regime.

As a consequence of implementation of Modification 0090 and the introduction of new DN Interruption arrangements, as described above Interruptible Supply Points will cease to exist from 1st October 2011 and all Supply Points will be subject to Supply Point Ratchets.

Therefore, NGD believes that use of the Bottom Stop SOQ to act as ‘minimum capacity buffer’ will no longer be required.

In light of the above, NGD proposes that the Bottom Stop SOQ be removed from the UNC with effect from 1st October 2011. Therefore, if implemented:

- The Transporters would not be required to record the Bottom Stop SOQ within the Supply Point Register,
- The Transporters would not be required to recalculate the Bottom Stop SOQ on an annual basis, and
- DM Registered Capacity would not be subject to a minimum value equivalent to the prevailing Bottom Stop SOQ.

Supply Point Ratchets

A Supply Point Ratchet occurs where the User Daily Quantity Output (UDQO) exceeds the Registered Capacity on any Day within the period of October to May inclusive. In such circumstances the operation of the Supply

Point Ratchet automatically increases the Registered Capacity to the UDQO value with effect from the following Day. In addition, the 'ratchet amount' (UDQO-Registered Capacity) is subject to Capacity charges levied at twice 'normal' rate. This process is described within UNC TPD section B4.7.

The application of Supply Point Ratchets to DM Firm Supply Points only (pending the removal of Interruptible Supply Points with effect from 1 October 2011) is detailed within UNC Transition Document Part IIC 6.1.4

To encourage effective management of Registered Capacity, it is proposed that Supply Point Ratchets are applicable throughout the year. NGD believes that this approach would promote effective management of Registered Capacity by Users.

Business Rules

Bottom Stop Supply Point Capacity

- 1.1 With effect from 1 October 2011, Transporters would no longer be required to record the Bottom Stop Supply Point Capacity within the Supply Point Register and henceforth would no longer be required to re-calculate the Bottom Stop Supply Point Capacity at the commencement of each Gas Year
- 1.2 With effect from the date specified in section 1.1, the Registered User's Supply Point Capacity would not be required to be equal to or greater than the Bottom Supply Point Capacity (as the latter value will no longer exist).
- 1.3 With effect from the date specified in section 1.1, the proposed Supply Point Capacity specified in a Supply Point Nomination received by the Transporter would not be required to be less than the Bottom Stop Supply Point Capacity (as the latter value will no longer exist) and therefore the Supply Point Nomination would not be rejected for this reason.

Supply Point Ratchets

- 2.1 With effect from the date specified in section 1.1, all Supply Points would be subject to the Supply Point Ratchet provisions on every day within the Gas Year.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

N/A

- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

[This Proposal has been developed within the remit of Review Group 0264 and the Review Group believes it is sufficiently developed to enable it to proceed to consultation].

2 User Pays

- a) **Classification of the Proposal as User Pays or not and justification for classification**

User Pays. The proposer believes that the changes proposed would benefit, and have impact upon, a specific subset of the Supply Point population i.e. DM Supply Points. To this extent, the Proposer believes it is appropriate to target cost recovery from such impacted parties.

- b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

Recognising the benefits to Transporters, particularly in respect of potential for improved Capacity management, it is proposed that, in respect of implementation costs, Transporters contribute 50% and Users 50%. It is suggested that the User apportionment is split according to the market share of DM Supply Points as at the date of implementation (if so directed).

- c) **Proposed charge(s) for application of Users Pays charges to Shippers**

Such charges have not been assessed as yet.

- d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable

3 **Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

The Proposer believes that, if implemented, this UNC Modification Proposal would further the GT Licence 'code relevant objective' of facilitating the efficient and economic operation by the licensee of its pipe-line system. Specifically, the application of Supply Point Ratchet provisions throughout the year would ensure that the Registered Capacity recorded in the Supply Point Register outside the period of October to May reflected any 'spike' in consumption (above the prevailing registered Capacity) experienced in this period.

The Proposer also believes that implementation would further the GT Licence 'code relevant objective' of the securing of effective competition between relevant shippers by promoting the effective and reflective management of Registered

Capacity by Users and thereby ensuring that Transportation charges are apportioned appropriately.

The Proposer also believes that removal of the Bottom Stop SOQ from 1 October 2011 (as effectively a redundant data item) would further the GT Licence 'code relevant objective' of the promotion of efficiency in the implementation and administration of the UNC.

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implication has been identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

Application of Supply Point Ratchets throughout the year would ensure that Registered Capacity is reflective of peak consumption at all times.

b) The development and capital cost and operating cost implications:

Development costs would be incurred to make the necessary changes to the UK Link systems.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Users Pays, as described in section 2 of this report.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequence has been identified.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

No such requirement has been identified.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Changes would be required to the UK Link system to remove functionality and validation associated with Bottom Stop SOQ and additionally to apply Supply Point Ratchet functionality throughout the year.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Users at DM Supply Points would need to ensure effective Capacity management throughout the year. Additionally, Registered Capacity would no longer be constrained by the Bottom Stop SOQ.

b) The development and capital cost and operating cost implications

To be advised by Users.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

Application of Supply Point Ratchets throughout the year could increase Users' contractual risk, specifically in the period June to September inclusive. Removal of the Bottom Stop SOQ would reduce Users' contractual risk associated with the restriction to the reduction of Registered Capacity due to the existence of the Bottom Stop SOQ.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

Consumers who wish to reduce their Registered Capacity (for example to reflect a significant reduction in peak consumption) would be able to instruct their Supplier / User to reduce the Registered Capacity recorded within the Supply Point Register to an appropriate level.

For Consumers whose supply charges are based either entirely or partially upon the Capacity charges incurred by the Registered User, this could facilitate reduction in the supply charges accordingly.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequence has been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

No additional advantages have been identified.

Disadvantages

No additional disadvantages have been identified.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

No such representations have been received.

13 Detail of all other representations received and considered by the Proposer

No such representations have been received.

14 Any other matter the Proposer considers needs to be addressed

The proposer believes that no additional matters require consideration.

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is suggested that this Proposal be implemented on 1st October 2011 to coincide with the removal of interruptible Supply Points.

16 Comments on Suggested Text

Not applicable

17 Suggested Text

Not applicable

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B4.7, G5.2

Proposer's Representative

Chris Warner (National Grid Distribution)

Proposer

Chris Warner (National Grid Distribution)