

Modification Report

Amending DM Supply Point Data for Sites with Significant Changes in Usage
Modification Reference Number 0244

Introduction of an Exception Process for Decreases in Supply Point Capacity (SOQ) at
Daily Metered (DM) Supply Points
Modification Reference Number 0244A

Amending DM Supply Point Data for Sites with Significant Changes in Usage
Modification Reference Number 0244B

Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposals

Modification Proposal 0244

Background

This issue has been raised by consumers at the Gas Customer Forum and the Demand Side Working Group. In response to these discussions and concerns expressed by consumers and consumer representatives this proposal has been developed in conjunction with other interested Shippers.

Under the current economic climate a significant number of consumers are reducing their levels of production. This is affecting both their levels of gas usage and the numbers of part mothballed or part vacant industrial and commercial properties.

The last minutes of the Monetary Policy Committee Meeting on the 4th and 5th February 2009 stated that the world downturn was ‘affecting the United Kingdom, where output had contracted sharply in the fourth quarter of 2008’. It also commented that ‘business surveys were pointing to a similar reduction in output in early 2009’. The CBI’s quarterly Industrial Trends Survey published 22 February 2009 commented that it found the worst predictions of industrial demand since 1975.

Where a site reduces usage, becomes part vacant or mothballed then Shippers will continue to be attributed transportation costs based on the AQ, SOQ and Bottom Stop SOQ (BSSOQ) for the site. The only option for avoiding these costs is to fully vacate the site and then withdraw from the supply point, isolating the meters.

Prior to the rebalancing of DNO charges to a 95/5 percent capacity commodity split where a site reduced its usage it would see a significant reduction in its costs due to the reduction in the commodity element of the charge. Large sites that had interruptible supply points which at the time paid only commodity charges would have seen an even greater reduction.

Since the change to a 95/5 capacity/commodity regime the customer’s only option to avoid charges for capacity they no longer need is to isolate and withdraw from the site.

This choice is neither good for the supplier, shipper or consumer. The consumer may wish to continue to take gas but at a significantly lower level but

must isolate to avoid the costs.

For example a car manufacturer may have a factory with a number of production lines. Due to the reduction in demand for cars it may choose to reduce the number of production lines at a factory from five to two. This will result in the car manufacturer's paint shop reducing their gas usage by over fifty percent. If the site is interruptible then the reduction in demand that happens today will not be recognised by the DNOs until October 2010.

In this example the choice given to the car manufacturer is to either continue to take gas and pay capacity charges at a rate reflecting its previous usage for the next eighteen months or to stop its usage completely. The shipper would then be required to isolate and withdraw. Isolation normally involves separating the meter, installing a lock on the Emergency Control Valve and capping the end of the service pipe.

The network would then disable the service pipe. This is normally done after 12 months. This usually involves cutting off the service pipe at the point where it connects to the gas mains. At this point the MPRN for the site would be set to dead and the service would no longer be considered part of the DNOs network.

NB. Were Shippers to withdraw from a site there is an increased risk that tenants re-commence consuming gas without having a registered Shipper in place. This could therefore introduce the risk that the volume of unallocated energy is increased. There are therefore instances when a Shipper may want to remain registered to a vacant site in response to consumer requirements and for the benefit of the industry.

NDM versus DM

The UNC currently allows NDM LSP sites to reduce their AQ (and therefore their SOQ) via the BTU form. There is no such ability for DM Firm sites to change their SOQ and DM Interruptible sites to change their SOQ and Bottom Stop SOQ.

DM sites can only reduce their SOQ in a fixed window. Outside of this window sites are therefore unable to reduce their capacity charges. Interruptible sites use the Bottom Stop SOQ in the calculation of their capacity charges.

In the context of the recent change to a 96.5% capacity pricing regime and the current economic circumstances this has led some consumers to consider isolating sites rather than part mothballing or reducing usage as their only option to avoid transportation charges on sites where they know gas usage levels will be reduced.

It is unclear why a BTU mechanism was never introduced for DM supply points but it seems likely that this was partly due to their ability in the past to avoid such costs by becoming interruptible. In the current regime DM supply points are unable to use this mechanism.

Effects of Isolation

It should be noted that isolation is a significant barrier to the site returning to active use and therefore potentially socialises the cost of that consumers' capacity on an ongoing basis. Experience suggests that once service pipes are cut off and MPRNs are set to dead it is rare that these are reconnected.

Once a site becomes dormant it is far less likely that that site will return to active use. In the global economy a site with ongoing production and an active workforce is more likely to be chosen for increased production than a dormant site. If a site is dormant then it must compete with sites in other locations that may benefit from lower wage economies.

The Proposal

It is proposed that the UNC is modified so that:

1. The Distribution Network Operators (or their agent on their behalf) will introduce a process for mandatory DM sites which allows Shippers to amend DM AQs, SOQs and/or BSSOQs.

NB. For the avoidance of doubt it is not proposed at this time that NTS sites be covered by this process.

2. The Shipper must change Supply Meter Point AQ to at least 73,201 kWh's or greater.
3. The SOQ must be decreased by more than 20%.
4. The SOQ and BSSOQ must be greater than 1/365 of the AQ and the SOQ must be greater or equal to the BSSOQ.

NB. For the avoidance of doubt the proposer assumes the process would include an element which would allow the user to amend the SHQ as appropriate to ensure it remains with the current UNC rules.

5. By using this process the Shipper warrants that they have confirmed, using reasonable actions, that the updated AQ, SOQ and/or BSSOQ represents a reasonable assumption of gas demand for the next 12 months.
6. The newly updated AQ, SOQ and/or BSSOQ will remain at that level for at least 12 months unless the Shipper reapplies. The site must remain DM for this period and will remain liable for applicable DM charges. The existing ratchet regime would also continue to apply to these sites.
7. Reapplications may be made by sites which, as a result of using the process, are below the mandatory DM threshold provided they are within the 12 month period referred to in 6.
8. In instances where the process has been used twice or more at a single Supply Meter Point within 12 months, then the Gas Transporter (or their agent) will ensure that where the registered Shipper proposes to increase the AQ, SOQ and/or BSSOQ that they are charged

retrospectively for the capacity charge element avoided in the original reduction.

NB. In instances when the process had been used to re-set the AQ, SOQ and/or BSSOQ and this had remained unchanged for 12 months then there will be no liability to pay any historic capacity charges.

NB. If a consumer chooses to use this process to give up capacity rights, they will no longer have any rights over that level of capacity. The network would be free to reallocate that capacity and the consumer would risk that capacity would not be available in the future.

This process would exclude sites that currently have NExA or ARCA arrangements in place as these agreements would take precedence.

This will ensure that Shippers can continue to comply with UNC requirements that the AQ should represent a reasonable assumption as to the quantity of gas offtaken, whilst providing sufficient incentives on Shippers and Consumers to not use this process to regularly change their registered capacity to reflect their process loads. This proposal will also benefit consumers by ensuring that they are not exposed to significant capacity charges for capacity that they will not access. This change will therefore provide GB business with the flexibility they need to support their survival in the current economic climate and on an ongoing basis.

While this process contains safeguards to avoid misuse of the regime by Shippers, it is suggested that the DNOs could report activity to the Billing Operations Forum. This would allow consideration of unusual behaviour should this occur.

NB Process examples are listed in Appendix 1.

Modification Proposal 0244A

Background

Modification Proposal 0244 (*“Amending DM Supply Point Data for Sites with Significant Changes in Usage”*) has been raised by Corona Energy. It has been raised following discussions, at various industry meetings, in relation to the current economic climate and the impact that this is having on industrial and commercial gas consumers.

Modification Proposal 0244 seeks to introduce a process for mandatory DM Supply Points (where the Supply Meter Point is subject to the Daily Read Requirement (UNC Transportation Principal Document (TPD) Section G1.5.2)) to allow them to amend various Supply Point data items. The data that could be subject to such amendments via the proposed process include the Annual Quantity (AQ), the Supply Point Capacity (SOQ), the Bottom-Stop Supply Point Capacity (BSSOQ) and the Supply Point Offtake Rate (SHQ).

To be able to amend such Supply Point data suggests that these items could be ‘changed for the better’ or ‘changed and corrected by removing faults or errors’. We (WWU) believe that it is inappropriate to introduce a process that allows for **all** such data items to be simply revised. It is worth stating what

these data items are and how they are defined within the UNC;

Annual Quantity (AQ) – This is defined within UNC TPD Section G1.6. In particular, paragraph 1.6.6 states that the Supply Point AQ should represent reasonable assumption as to the quantity offtaken from the Total System in the previous 12 months from when the Annual Quantity is determined. We believe that the AQ data held for DM Supply Points is robust and accurate and the AQ Review process presents adequate opportunity for Users to ensure it remains so. The AQ of a DM Supply Point is not used for LDZ transportation charges other than to determine the charging band (charges are then calculated using the actual consumption, the SOQ and, for interruptible Supply Points, the BSSOQ).

Supply Point Capacity (SOQ) – This is defined within UNC TPD Section B1.2.3(f) and is the capacity (kWh/day) that the User has the right to Offtake, at a particular Supply Point, from the Total System. For DM Supply Points this is a nominated value (e.g. not derived from the AQ or calculated by the Transporter). Users can currently nominate a revised SOQ for a DM Supply Point by utilising the Capacity Revision Application process. There are restrictions upon this process, namely the Capacity Reduction Period for decreases in SOQ (UNC TPD Section G5.2.2) It is within this area that this Alternative Modification Proposal seeks to make changes (as detailed below under the ‘Nature and Intent of this Proposal’ section).

For clarity, it is the proposed Supply Point Registration Date (i.e. the date the revised SOQ becomes effective) that must fall within the Capacity Reduction Period, it is not the date that the Capacity Revision Application is made.

Bottom-Stop Supply Point Capacity (BSSOQ) – This is defined within UNC TPD Section G5.2.3(a) and is the highest User SPDQ for any day during October to May (inclusive) within the Preceding Year, or if higher, the Prevailing Supply Point Capacity following a Supply Point Ratchet (Firm DM Supply Points only). This is a calculated ‘factual’ data item and, in our opinion, it would be inappropriate to allow this to be simply ‘amended’. However, we appreciate that the rule contained within UNC TPD Section G5.2.1 prevents a Registered User’s Supply Point Capacity being less than the Bottom-Stop Supply Point Capacity. This is one element of the process that we have addressed in this Alternative Modification Proposal.

Supply Point Offtake Rate (SHQ) – This is defined within UNC TPD Section G5.3 and is, in respect of a DM Supply Point Component, the maximum instantaneous rate (in kWh/hour) at which a User is permitted to Offtake gas from the Total System at the Supply Point Component. As with the SOQ at a DM Supply Point, the SHQ can be revised by utilising the existing Capacity Revision Application process.

Although we disagree with the ability to revise all of the Supply Point data items mentioned above, we do acknowledge that there already exists a process that allows Non-Daily Metered (NDM) Larger Supply Points (LSP) sites to amend such data under certain circumstances. Under UNC TPD Section G1.6.13, a Registered User of any LSP (NDM or DM) can notify the transporter that an Annual Quantity does not satisfy the AQ definition (G1.6.6). This can be on either the basis of substantial evidence as to the actual

consumption of gas (more relevant to NDM LSPs) or where there has been a change in the Consumer's Plant which results in a significant change in the basis on which gas is consumed.

If an NDM Supply Point revises its AQ using the above process (often referred to as the "BTU Form" process) then the Supply Point Capacity is also revised as it is derived from the Supply Point AQ and the relevant EUC peak load factor (UNC TPD Section H4.1). As approximately 96.5% of LDZ transportation charges are based on Supply Point Capacity, this presents an opportunity for NDM Supply Points to not only reduce their AQ and SOQ, but also their transportation charges.

If a DM Supply Point were to utilise the "BTU Form" process their AQ could be revised. However, as the SOQ is nominated and not derived, this would have no impact on the transportation charges that they incur. It could however alter the rate (increase) as these are in bands that are directly related to AQ (applicable charging rates are at 73,200Kwh and 732,000Kwh). We believe that, in relation to this issue, both NDM and DM Supply Points should be afforded the same opportunities. This could be facilitated by either removing the "BTU Form" process from the UNC or by introducing a similar process for DM Supply Points. This Alternative Modification Proposal seeks to introduce such a process for DM Supply Points (see below).

Modification Proposal 0244 also seeks to introduce an 'incentive regime' that is designed to prevent Users from taking advantage of a reduced SOQ, during a period of low usage, and then increasing the SOQ when the capacity is required (e.g. summer/winter profiling). We have concerns that this incentive regime would not be sufficient to prevent this scenario occurring and would be a large, and possibly unmanageable, administrative burden on the Transporters and/or the Transporters' Agency.

The Distribution Network Operators (DNOs) have expressed the concerns that are highlighted above during industry meetings and to the Proposer of Modification Proposal 0244. In addition to these issues there are the following more general concerns that we have with Modification Proposal 0244:

- 1) The proposed process could apply to a high proportion of DM Supply Points and this could seriously undermine the UNC capacity and charging regime.
- 2) Due to the potential high numbers of Supply Points utilising the process, it would not be possible to manage this 'offline' and a complex systematised UK Link solution would be required. This is likely to take several months to implement and there are concerns that the benefits, that Corona Energy are looking to provide to consumers, could not be realised for a significant period of time.
- 3) The proposed arrangements go further than the processes that already exist for NDM sites. The proposed process only requires the Registered User to warrant the data that is being amended, the DNO has no opportunity to validate or reject applications for a reduction in SOQ (as they currently do for the "BTU Form" process).

Nature and Intent of this Proposal

This Modification Proposal has been raised due to the issues highlighted in the previous section and present a more pragmatic and equitable solution to the issue that Corona Energy are seeking to address.

We believe that the solution to this problem should focus upon giving DM Supply Points the opportunity to reduce their SOQ under certain exceptional circumstances (equal to those that apply under the “BTU Form” process).

We also recognise that the existing Capacity Reduction Period, and the rule regarding the SOQ always being no less than the BSSOQ, exacerbates the situation. For example, a DM Supply Point that significantly reduces their daily gas consumption during, say, October 2008, will not be able to significantly reduce their SOQ until the Capacity Reduction Period in October 2010. This is due to the BSSOQ that is effective in October of any year being based on the period October to May (inclusive) of the Preceding Year.

We therefore propose that an exception process is introduced to allow for decreases in SOQ at DM Supply Points based on utilising the existing Capacity Revision Application process.

For clarity, the existing Capacity Reduction Period would still apply and any DM Supply Point would be able to reduce their SOQ down to no less than their BSSOQ (as-is). The DNOs can only reject such a decrease if the application does not contain the required information or if there have been sanctions placed upon the User (UNC TPD Section G5.1.7).

The exception process would allow for Capacity Revision Applications, containing a proposed decrease in SOQ down to no less than the BSSOQ, to be valid when they are outside of the Capacity Reduction Period.

The exception process would also allow for Capacity Revision Applications, containing a proposed decrease in SOQ to below the BSSOQ, to be valid at any time (regardless of the Capacity Reduction Period).

The exception process could only be applied to DM Supply Points where there has been a change in the Consumer’s Plant, or changes to circumstances at the site, that result in a significant change in gas usage. This would only apply where it can be reasonably expected that the future usage would not increase within the foreseeable future. The relevant Transporter would be able to reject such application if this criterion were not satisfied.

The existing Capacity Revision Application process already allows/requires the Transporter to;

- 1) request additional information from the User (UNC TPD Section G 5.1.9) in relation to the future usage (load profiles). This information can be requested/communicated via email or facsimile (UNC TPD Section G5.1.12);
- 2) gain permission from the User to visit and access the premise in

It is proposed to extend these provisions to apply to Capacity Revision Applications for a decrease in SOQ that utilise this exception process. It is also worth noting that the Transporters also have access to the Meter Reads for all DM Supply Points and this data could also be used to validate applications made using this exception process.

The table below demonstrates how the existing process and the proposed exception process would be applied:

Proposed Supply Point Registration Date*	Proposed SOQ	Applicable Process
Anytime (Oct – Sept)	Increase	Existing
Oct – Jan (inclusive)**	Decrease (SOQ >= BSSOQ)	Existing
Feb – Sept (inclusive)	Decrease (SOQ >= BSSOQ)	Exception
Anytime (Oct – Sept)	Decrease (SOQ <= BSSOQ)	Exception

*The proposed Supply Registration Date is the date when the revised Supply Point Capacity will become effective. It is this date that is subject to the Capacity Reduction Period requirement.

**This is the Capacity Reduction Period

Points of clarification:

1. The exception process would not apply to DM Supply Points that are directly connected to the NTS. This is consistent with the current arrangements within UNC TPD Section G5. Modification Proposal 0195AV amended UNC TPD Section G5.1.1 to explicitly exclude NTS Supply Point Components from UNC TPD Section G5.
2. No changes to the existing Supply Point Ratchet regime (UNC TPD Section B4.7) are proposed within this Alternative Modification Proposal.
3. The exception process will only apply to Supply Meter Points that are subject to the Daily Read Requirement (UNC TPD G1.5.2).
4. The BSSOQ would not be amended via the exception process and would continue to be used for calculation of the charging rate for interruptible Supply Points.
5. Capacity Revision Applications for an increase in SOQ at a DM Supply Point will follow the existing processes regardless of whether the exception process has been previously utilised.
6. The exception process will not apply to sites where it has become unoccupied / vacant. The existing Isolation and/or Withdrawal provisions (UNC TPD G3) should be utilised in this scenario to cease

the relevant commodity and capacity charges. Where the site has become temporarily unoccupied, the Supply Point Capacity should remain at the prevailing rate for when it becomes occupied (although the existing Capacity Revision Application for a decrease can still apply).

7. Unless explicitly stated within this Alternative Modification Proposal, all existing UNC rules, processes and procedures will continue to apply to any DM Supply Point that utilises the exception process.
8. The exception process would be on an enduring basis, however, we would be supportive of a review of this regime, the use of BSSOQs and the Supply Point Ratchet regime. Such a review could take place at anytime (regardless of Modification Proposal 0244 or any Alternatives) although it would seem sensible if this took place prior to October 2011. At this point the BSSOQ will no longer be used for transportation charges at Interruptible Supply Points and may no longer be required within the UNC.

Unfortunately, as this Modification Proposal has been raised as an Alternative Modification Proposal to Modification Proposal 0244, it has not been possible to discuss this at any length at industry meetings. We would welcome comments and/or questions prior to Representations being made in order for us to address any concerns that people may have.

Modification Proposal 0244B

Background

Corona Energy has raised UNC Modification Proposal 0244. This proposes an enduring revised Daily Metered (DM) capacity regime which permits amendment to various daily capacity offtake related data under specific circumstances. It is understood that under the current economic climate a significant number of consumers are reducing their levels of production. We are advised that this is affecting both their levels of gas usage and the numbers of part 'mothballed' or 'part' vacant industrial and commercial properties.

Modification Proposal 0244 identifies a modified regime which includes various features, some of which in National Grid Gas Distribution's (NGD) opinion may not represent the most efficient way of addressing Users' requirements.

Corona identifies that its Proposal is designed to meet the requirements of consumers in addressing the consequences of the economic downturn. In particular, Modification Proposal 0244 seeks to address the issue whereby a Supply Point has a Bottom Stop Supply Point Capacity (BSSOQ) set at a level consistent with requirements before the impact of the current economic conditions took effect and preventing the User from registering a Supply Point Capacity (SOQ) at a level consistent with the Supply Point Component's requirements as a result of the economic downturn. Moreover, it is possible that some Supply Point Components will have a BSSOQ set from October 2009

based upon their peak requirements consistent with pre-economic downturn requirements preventing the registered SOQ, to take effect from October 2009, being set to actual required level over the subsequent gas year. Under these circumstances such Supply Point Components may be limited in reducing the SOQ to a desired level until October 2010. NGD acknowledges that the DM capacity regime restricts significant changes in offtake behaviour being reflected in the bookings of future capacity requirements.

NGD is therefore sympathetic to Corona's concerns and is aware that the DM capacity regime is by design slow to react to changes in offtake behaviour. The terms of the UNC in this respect are consistent with cost reflectivity and ensure that long term physical requirements at the Supply Meter Point are managed appropriately. We note that recent changes to the charging regime in terms of the 95/5 apportionment of capacity/commodity charges and capacity charging at Interruptible Supply Points have raised concerns from Users associated with their potential exposure in the current economic climate. However we are of the view that such remedies should be time limited given the uncertainties around the longevity of the economic position. Transitional terms would be beneficial in that relatively 'simple' measures may be implemented requiring limited contractual change to meet consumers' immediate requirements. This is in the knowledge that a longer term sustainable regime may (if necessary) be developed taking account of all industry changes such as those to the Interruption and Capacity charging regimes and experiences gained during the transitional period.

NGD has therefore identified a significantly simpler regime to that proposed by Modification Proposal 0244 which we believe addresses the above concerns. The revised terms would be transitional and expire on 30th September 2011. NGD recommends that the level of participation in the new regime and its effectiveness be reviewed within the UNC Distribution Workstream after a predetermined period from implementation following which further proposal/s could be raised to extend the relevant transitional terms should this be necessary as a consequence of economic events and/or to identify further enhancements to the regime should these be desired.

Changes are therefore proposed to the Minimum capacity requirements as set out within UNC Principal Document Section G5.2 as follows:

- For any Supply Point Component subjected to the Daily Read Requirement, excepting an NTS Supply Point, permit the reduction of the SOQ within the Capacity Reduction Period to a value below the BSSOQ.
- Based on evidence such as consumption data, daily reads, etc, the Distribution Network Operator (DNO) reserves the right, in its sole discretion, to reject requests which it considers are not compliant with the UNC.

Note: the terms of UNC Section G5.4 'Absolute requirement' governing the Supply Point Offtake Rate remain applicable.

Changes to Supply Point Ratchets (TPD B4.7) are proposed as follows.

- Supply Point Ratchets and Supply Point Ratchet Charges are to be applicable to all Supply Point Components (Firm and Interruptible).

It will be noted that the above provisions apply only to relevant Daily Read Supply Meter Points where the relevant premises is occupied and gas is being offtaken. In the case of an unoccupied, empty or vacant premiss, the UNC provisions governing Isolation and Withdrawal should be utilised.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

During discussions for 0244, the Distribution Workstream felt AOs, SOOs, SHOs and BSSOs play an important role in planning the short term operation of the pipeline system. Having AOs, SOOs, SHOs and BSSOs that reflect actual usage will therefore enable the Gas Transporters to operate their pipeline systems in an efficient and economic manner. Further in the long run the process could be used by the Transporters to identify any underlying trends in the number and operation of part vacant or part mothballed sites. This could also help in the long term planning and development of the system.

EDF and SSE consider that AOs and SOOs play an important role in two distinct areas of operation of the pipeline system. Firstly if they are used for the short time operation and planning of the system then enabling Shippers to re-set DM SOOs to a reflective level should provide a benefit as Gas Transporters will have a better view as to the likely demand on their system. This may also help to offset short term interruption requirements and so provide a benefit to consumers through reduced cost.

In addition EDF felt if AOs and SOOs are used for the long term planning of the system and investment then there is a chance that these proposals will not provide a material benefit. In particular it would appear that the AOs and SOOs would be re-set to reflective the current economic climate, and so would no longer be reflective when this changes. This could therefore provide the GTs with an inaccurate view of future demand and so not facilitate this objective.

Gazprom consider Modification Proposal 0244 will allow customers to provide accurate and timely information on their gas requirements to the transporters, improving the information available for network operation. This will promote efficient and economic operations of the pipeline system and so further this objective.

Gazprom commented, Modification Proposal 0244A excludes vacant sites from using this process, which will need to either withdraw from the system or be obliged to pay excessive system costs for a considerable period of time. The Transporters will either lose sight of a significant offtake that may reconnect with short notice, or have an unrealistic view of the demand on its network. Both scenarios will result in inefficiencies and unnecessary costs being incurred by the networks, so not furthering this objective.

Gazprom consider Modification Proposal 0244B will not allow Shippers to provide accurate and timely information to the Transporters as it limits the times to which this information can be provided to a set window in the winter of each year. This may mean that a site has an unnecessarily high SOQ for a considerable period, during which time the Transporter will need to maintain system capability and hence this Modification Proposal does not further this objective.

Scotia Gas Networks consider implementation of Proposal 0244 would not help further this relevant objective - this Proposal has the potential to allow sites to reduce and increase (capacity availability permitting) their usage seasonally and, as such, it would not help in future planning.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;***

During discussions for 0244, the Distribution Workstream felt AQs, SOQs, SHQs and BSSOQs that reflect actual usage would help to ensure that the Gas Distribution Networks (GDNs) book an appropriate level of NTS Exit Capacity required for the consumers connected to their system, thereby facilitating this objective.

Gazprom consider if the Transporters have a more accurate view of the gas transportation requirements on their networks, they in turn will be able to provide the NTS with more accurate demand forecasts and capacity bookings. Modification Proposal 0244 will help provide this information and so promote efficient and economic operation of the pipe-line system as a whole, hence furthering this objective.

Gazprom commented, Modification Proposal 0244A does not further this objective as it does not allow customers in certain circumstances to provide accurate demand information. Similarly, Modification Proposal 0244B only allows customers to provide this information at certain times, hence creating unnecessary delay in this information being provided, so not furthering this objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Standard Special Condition A5.5 requires the Gas Transporters to develop a charging methodology so that charges reflect the costs incurred. The current methodology relies on AQs, SOQs and BSSOQs as the basis for charges. If any of these do not reflect actual usage then arguably the charges developed will not be as accurate as possible. 0244 Allows Shippers to register an AQ, SOQ and/or BSSOQ that reflect actual usage will therefore facilitate SSCA5.5 and so in turn facilitate A11.1 (c).

In its Modification Proposal 0244A, Wales & West consider Standard Special Condition A5 of the gas transporters licence requires, amongst other things, a

Charging Methodology to be in place and for charges to reflect the costs incurred by the licensee in its transportation business. It could be argued that introducing such an exception process would better facilitate the “relevant methodology objectives” and therefore better facilitate this relevant objective. However, it could be argued that such an exception process undermines the basis of the capacity and charging regime that exists within the industry. This would mean that the proposed process could result in an increase of cross-subsidisation and/or socialisation of costs. This would be in direct conflict with this relevant objective.

British Gas felt none of the Modification Proposals further this relevant objective. Allowing Shippers to vary capacity bookings within year will make it more difficult for Transporters to target costs. This will result in under and over recoveries of revenue that in turn manifest as volatility in charging; creating uncertainty, risk and cost for Shippers.

EDF Energy recognises the concerns expressed by Wales & West Utilities regarding the implications that these Modification Proposals could have for cost reflective charges. In particular it appears that were any of the Proposals to be implemented, then DM Consumers could reduce their demand in response to an economic downturn and so reduce their transportation charges. However they would still have access to the DN system and so, all things being equal, would be able to utilise the existing infrastructure when the economic picture improved. There is therefore a potential for costs to be correctly targeted were capacity to be utilised where it is required Therefore all three Proposals facilitate this objective.

National Grid NTS do not consider any of the Proposals further this relevant objective. By effectively allowing capacity bookings to be revised by Shippers within year, all three Proposals could result in a detrimental effect on the accurate targeting of transportation charges since the reduction in charges at one Exit Point would need to be addressed by increasing charges more generally in order to recover the Transporter’s allowed revenue. Any under-recovery of revenue could result in this revenue requirement being passed through to shippers in the following formula year.

Scotia Gas Networks do not consider implementation of Proposal 0244 would help further this relevant objective. The current charging methodology relies on AQs, SOQs and BSSOQs as the basis for charges, and if these do not reflect actual usage then the charges will not be as accurate as they might be. However it does not necessarily follow that allowing shippers greater flexibility to register AQs, SOQs and BSSOQs will mean that they will better reflect actual usage. The BSSOQs were introduced some years ago because some shippers were nominating unduly high SOQs on interruptible sites to take advantage of the lower unit rates on commodity charges which would result. Modification 0244 does not contain sufficient safeguards against similar inappropriate AQs, SOQs or BSSOQs being nominated again.

Scotia Gas Networks considers that implementation of Proposal 0244A could help further this relevant objective by allowing shippers greater flexibility to nominate AQs, SOQs and BSSOQs which reflect actual usage, particularly as Modification Proposal 0244A provides a safeguard against inappropriate nominations. However, Scotia Gas Networks also agrees that the introduction

of this exception process could undermine the basis of the capacity and charging regime in the industry because of the possibility that some of the re-nominated AOs, SOQs and BSSOQs might fail to reflect actual usage. In this event the charges to some sites might be reduced, and this will lead to an increase in the charges to all other sites in future years.

Scotia Gas Networks do not consider implementation of Proposal 0244B would help further this relevant objective. It will allow Users to reflect actual usage and this will flow through to the transportation charges. However it does not necessarily follow that allowing Shippers greater flexibility to register AOs, SOQs and BSSOQs will mean that they will better reflect actual usage and this may create uncertainty in the licensee's planning process.

Wales & West argue that implementation of any of these Modification Proposals actually undermines the basis of the capacity and charging regime that exists within the industry. This would mean that the proposed processes could result in an increase of cross-subsidisation and/or socialisation of costs. This would be in direct conflict with this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;***

During consideration of 0244 the Distribution Workstream felt:

- i) By ensuring capacity costs are targeted at the correct Shippers this will reduce any cross subsidisation that would otherwise occur and so be beneficial to competition.
- ii) By implementing 0244 it will reduce the likelihood of Shippers isolating and withdrawing from sites. This will reduce the likelihood of the long-term socialisation of the cost of the capacity provided to the consumer.
- iii) 0244 provides Shippers with DM sites the opportunity provided to LSP NDM sites. By using this process and allowing the AO, BSSOQ and SOQ to be amended, the Shipper is able to affect the level of capacity charges levied.

Wales & West considers 0244A will enable Users, under exceptional circumstances, to reduce the SOQ at DM Supply Points in line with the expected future usage at that site. Therefore it could be argued that 0244A would target costs more appropriately and so may better facilitate relevant objective A11.1(e)(i).

National Grid Distribution considers 0244B enables Users to reduce their capacity bookings at DM Supply Meter Points in line with their ongoing capacity requirements. This should improve the cost reflectivity of the regime

during the current economic downturn.

British Gas do not consider Proposals 0244, 0244A and 0244B further this relevant objective as the effect of each of these Proposals is to transfer costs for capacity booked by certain Exit points and certain Shippers to the broader Shipper community. This therefore will result in less accurate targeting of costs, effectively providing a cross subsidy between Shippers.

EDF Energy considers Proposals 0244 and 0244A facilitate this objective. Proposals 0244A and 0244B allow Gas Distribution Networks to reject DM SOQs where it appears that they do not meet the requirements of the UNC based on empirical evidence etc. This should provide protection to the industry against Consumers who may wish to use these arrangements for short term gain. Therefore EDF considers that 0244A should result in better targeting of costs than 0244. However, Proposal 0244B proposes to introduce a ratchet charge to both DM and interruptible supply points. We fail to understand how introducing a ratchet charge to interruptible supply points would ensure costs are targeted and so promote competition. Therefore EDF felt that 0244B will not facilitate this relevant objective.

Gazprom consider Modification Proposal 0244 will ensure accurate capacity costs are targeted at the correct sites, reducing any cross subsidisation that would otherwise occur, be beneficial to competition, and hence further this objective. Modification Proposals 0244A and 0244B do not achieve this by unnecessarily restricting when and how customers can reduce their capacity requirements and so does not further this objective.

Scottish and Southern Energy considers 0244A will enable Users to reduce the SOQ at DM Supply Points in line with the expected future usage at that site. This will target costs more appropriately.

National Grid NTS consider while reducing the User's capacity bookings at a DM Supply Meter Point in line with their ongoing capacity requirement might improve the short term cost of the User's transportation charges during the current economic downturn, to the extent that any of the Proposals are successful in doing this, the Proposals could also increase the likelihood of NTS revenue under recovery. This could result in this revenue requirement being passed through to Users in the following formula year, and therefore they do not believe these Proposals better meet this objective.

Wales & West consider these Modification Proposals will enable Users to reduce the SOQ at DM Supply Points in line with the expected future usage at that site. Therefore it could be argued that these Modification Proposals would target costs more appropriately and so may better facilitate relevant objective A11.1(e)(i). However, Wales & West consider it could be argued that implementation of any of these Modification Proposals conflicts with this relevant objective as it increases socialisation of costs and undermines the capacity/commodity charging regime.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

EDF Energy notes that Proposal 0244B introduces transitional terms until 30 September 2011, which could be extended depending on the economic outlook. Requiring the continuing review of the arrangements does not appear beneficial or represent the efficient administration of the UNC. In addition, it would appear that the introduction of an end date suggests that these arrangements will only be required until the end of the economic downturn. This suggests that there will either not be any future downturns or that the next one will have no impact on DM sites. This is unlikely and so the industry will be required to raise future Proposals to resolve these issues. Therefore 0244B would have a detrimental impact on this objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

In its consideration of 0244, the Distribution Workstream felt it would be logical that AQs, SOQs SHQs and/or BSSOQs that more accurately reflect actual usage should benefit Transporters through the short term operation of the System. In the long term the ability to identify trends from the process may benefit the long term planning and development of the system.

Gazprom consider Modification Proposal 0244 will help improve the accuracy of information on systems and site demand to transporters which will help planning and operation and so enhance efficiency. Modification Proposal 0244A and 0244B places restrictions on when such information can be provided and so does not represent a notable improvement over the current regime.

Wales & West do not consider implementation of Modification Proposal 0244A or 0244B would present such implications for the operation of the system. However, Modification Proposal 0244 could have a negative impact as it seeks to amend system data such as BSSOQs.

b) Development and capital cost and operating cost implications:

Systems implementation costs are expected to be incurred by DNOs and

xoserve as a consequence of implementing one of Modification Proposals 0244, 0244A or 0244B. Details of these costs are unknown and would be subject to impact assessments.

Specifically to 0244 there would be new costs for the Gas Transporter (or their agent) in instances where the process has been used twice or more within 12 months and the Shipper is requesting an increase in the AQ, SOQ and/or BSSOQ. In this case, the Gas Transporter (or their agent) would charge retrospectively for the capacity charge element avoided in the original reduction. There would be costs associated in administering and calculating this charge and invoicing the shipper.

Wales & West considers the exception process in 0244A could be largely accommodated within existing processes; however, some UK Link changes would be required. It is likely that such changes could be implemented fairly quickly (2-4 months) subject to the necessary approvals and the appropriate consideration to other projects and priorities. These timescales will require confirmation from xoserve and this information will be made available once it is known.

National Grid NTS considers the additional processes required for these Proposals, particularly in relation to the retrospective charging elements, seem disproportionate to the issue they are seeking to address.

Scotia Gas Networks understands implementation of Proposal 0244A would require minimal changes to UK Link it is hoped that further information will be made available at the Modification Panel to confirm cost implications and implementation timescales. However it would be fair to conclude that changes to processes and system would be simpler and therefore quicker to implement for this Modification compared to Modification Proposals 0244 and 0244B.

Wales & West advise there will development costs associated with all three Modification Proposals. The high level analysis that has been carried out so far suggests that the implementation timescales and costs for Modification Proposal 0244A would be less than those for Modification Proposals 0244 and 0244B.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

If significant costs are identified in 0244 the Gas Transporters may wish to subsequently propose changes to the ACS (Agency Charging Statement) with a view to recovering the costs on a user pays basis.

Wales & West advise no cost recovery mechanism is proposed in relation to 0244A and the transporters would fund the necessary UK Link changes.

National Grid Distribution does not propose any new cost recovery mechanisms in 0244B.

National Grid NTS agrees with the Proposer of 0244 that should costs be identified, then Gas Transporters may wish to subsequently propose changes to the ACS with a view to recovery of these costs from Users on a user pays basis.

Wales & West concur that no cost recovery has been suggested for the

development costs relating to these Modification Proposals. The ongoing operating costs of any of these Modification Proposals could be subject to User Pays Charges. However, a separate Modification Proposal would be required to introduce these.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

National Grid Distribution advised that based on recent data (for February 2009) it is estimated that demand at DM ‘mandatory’ sites has reduced by 19% on average year-on-year. If any of the Modification Proposals were implemented, then there would likely be substantial reductions in Users’ capacity bookings during this Formula Year, over the level that might anyway be expected with the existing regime.

Assuming implementation from October 2009, National Grid Distribution estimate that there might be an additional capacity revenue reduction of the order of £5m under any of these Proposals for this year (reducing capacity revenue for such sites from £33m to £28m during October to March 2010). Since charge levels have already been set from April for this year this could lead to additional under recovery on “K” of around £5million at March 2010 (across all four National Grid Distribution networks). Under current arrangements, any under-recovery would be recovered through DNO transportation charges with respect to all DNO Supply Points in the following year.

Under any of the Proposals, for the April 2010 price change onwards, National Grid Distribution would forecast and aim to take into account the potential changes in DM capacity bookings over the year and so the ongoing risk of under-recovery associated with these provisions might be reduced. Such forecasting of changes would be simpler under Modification Proposal 0244B relative to 0244 or 0244A since under these latter Proposals, changes could occur at any time of year with a risk that capacity requirements could be profiled through the year.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequences on contractual risk have been identified.

National Grid Distribution advised the likely level of such contractual risk incurred is expected to be low should 0244B be implemented.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Changes would be required to implement one of Modification Proposals 0244, 0244A or 0244B and need to be clearly identified based on the solution agreed.

Wales & West’s initial view is 0244A could be implemented within 2-4

months. xoserve are currently evaluating 0244A and Wales & West will provide the Modification Panel with any further updates relating to this.

Gazprom consider there will be a requirement with Modification Proposal 0244 to extend the current process used for NDM LSP sites to DM sites, but anticipate this will not be a significant change. Similarly, it is not anticipated that Modification Proposals 0244A and 0244B will require significant system development.

Wales & West consider there would be development implications for the UK Link System as a result of implementation of any of these three Modification Proposals. Modification Proposal 0244 may also result in changes to the network management systems used by the transporters.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Implementation of one of Modification Proposals 0244, 0244A and 0244B would have administrative and operational implications on Shippers.

If Shippers wish to utilise 0244 then they will need to have appropriate procedures and policies in place to ensure that the proposed AQ, SOQ, SHQ and BSSOQ reasonably reflects the expected usage. However, as this is a voluntary procedure, it is expected that Shippers will only utilise this procedure if the benefit of it to the customer outweighs the costs, as there is no commercial benefit for Shippers.

Wales & West consider the administrative and operational implications on Users would be limited should 0244A be implemented, as the proposed exception process is based on the existing Capacity Revision Application process.

Development and capital cost and operating cost implications

No such implications have been identified.

Consequence for the level of contractual risk of Users

When considering 0244 the Distribution Workstream concurred that Standard Licence Condition B3 of the Shipper Licence requires the Shipper to not knowingly mislead the Transporter. Potentially having an inaccurate AQ as a result of a site becoming part mothballed, or part vacant, could be viewed as misleading the Transporter, provided that this was sufficiently material. By ensuring that Shippers can lodge an accurate AQ under the UNC this reduces the contractual risk that they could be held in breach of their Shipper Licence.

Gazprom consider if Shippers cannot provide accurate AQs, SOQs and BSSOQs to the Transporters then they may be viewed to be in breach of Standard Licence Condition B3, which is the requirement to provide accurate information to transporters. Modification Proposal 0244 helps to remove this

risk, but the restrictions placed by Modification Proposals 0244A and 0244B means that they do not help reduce the risk.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

0244 is aimed at addressing issues raised by Consumers, including at the Gas Customer Forum, and this modification proposal has been developed in response to this. 0244 will provide a direct benefit to consumers by ensuring that the capacity costs that they are exposed to are directly related to the capacity that they require and access.

0244 provides an alternative to isolation and will help to ensure that manufacturing returns to GB when the economic climate improves. This will provide a benefit to consumers through reduced socialisation of capacity costs and GDP in general.

Should 0244 be implemented, there is a risk capacity may not be available to the Consumers when they wish to increase their use at a later date and as a consequence they may face reinforcement costs. However, allowing consumers to reflect their actual gas consumption provides more accurate investment signals to Transporters for short term reinforcement plans.

Wales & West consider the implementation of 0244A would allow Users to reduce the SOQ at certain DM Supply Points and thus reduce the transportation charges that the site incurs. This could have a direct impact on the charges levied on the consumer (but will be dependent on the terms of the Shipper/Supplier and Supplier/consumer contracts).

National Grid Distribution considers the effects of implementation of 0244B and the extent to which it would enable industrial and commercial end consumers to limit their exposure to relevant supplier charges is unclear. This would depend on the nature of the relevant supply contracts held. However, it is expected that the resultant lower capacity charges levied to Users would be passed on in terms of savings for end consumers at DM Supply Points.

It should be noted that as is the case with Modification Proposal 0244, in the event of implementation of Modification Proposal 0244B, dependent on the extent of utilisation of the extended capacity reduction opportunities by Users, there could be a significant under recovery of transportation revenue by DNOs particularly for 2009/2010. This is because transportation charges for this period have already been set based upon continuation of the existing UNC regime. This would flow through the 'K' factor and impact transportation charges for 2010.

BOC considers Proposals 0244A and 0244B overly constrain Customer flexibility, delay implementation of new charges, appear to over-complicate what should be a straightforward concept in a manner that will detract from the timeliness and accuracy of information needed by Shippers and fail to address the question of a temporary zero requirement from a site.

Corus understands DM sites are only able to review capacity reservations at certain points in the year and to a minimum of the prevailing BSSOQ.

Furthermore that these rules were introduced to prevent users from artificially profiling their gas capacity reservations. Owing to regulatory reforms in 2008 relating to interruption and a 95:5 capacity/commodity charging structure, end-users are also unable to reduce costs to the same degree via a commodity based charge or by offering interruptibility. With hindsight, Corus believes the reforms introduced in 2008 should have been coupled with additional mechanisms to allow end-users to manage their fixed costs.

Corus also notes the inconsistency in respect of processes which are available to NDM but not to DM sites. NDM sites are able to adopt a BTU process to make changes to their capacity reservations. While also observing that the Gas Distribution Networks are still able to adopt the 'K mechanism' for socialising their unrecovered, but still allowable, revenue. DM users have no similar means of managing their costs in the short term, and in some cases not until October 2010 owing to the time lag on setting the BSSOQ. For these reasons, it is fair that DM users should be afforded a new mechanism described in Proposal 0244 to manage these unnecessary costs.

Both E.ON and RWE Npower emphasise the fact that if any of the Proposed Modifications are implemented by Ofgem, eligible LDZ Supply Points must be made aware that there is a risk that any Capacity which they decide not to make further use of may not be available in the future when they wish to increase their usage and they may face reinforcement costs as a consequence of this.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

National Grid Distribution considers the cost reflectivity of the DM capacity regime should be improved if 0244B were implemented.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Modification Proposal 0244

- Ensures costs are appropriately targeted.
- Helps support British industry and UK GDP.
- Provides a pragmatic solution.
- Reduces long-term socialisation of costs.

Gazprom felt the following advantages for 0244 should be considered.

- Provides transporters with accurate and timely information on likely gas demand on their networks.
- Provides a pragmatic solution to an issue that will otherwise compel customers to incur significant, unnecessary costs or isolate themselves from the network.
- Reduces the possibility of sites consuming gas without a Shipper being

Modification Proposal 0244A

- Allows for DM Supply Points to have the same opportunity as NDM Supply points to reduce their Supply Point Capacity.
- A decrease in DM Supply Point Capacity may result in lower charges being levied on the end consumer.
- Provides an alternative solution to the issues identified in Modification Proposal 0244 that would be simpler to administer and implement.

EDF Energy felt the following advantages for 0244A should be considered.

- Implementation timescales would be shorter.
- The Proposal enables scrutiny of applications.

Gazprom felt the following advantages for 0244A should be considered.

- Allows some customers to pay appropriate costs.
- Provides transporters with accurate and timely information on likely gas demand on their networks in some circumstances.
- Scotia consider Modification Proposal 0244A is easier to implement

Modification Proposal 0244B

- Provides a simple, pragmatic method by which a User may amend the capacity requirements at a DM Supply Points to reflect anticipated consumption thereby improving cost reflectivity.

Gazprom felt the following advantages for 0244B should be considered.

- Allows some customers to pay appropriate costs eventually when capacity is reduced during the capacity window.
- Provides transporters with accurate and timely information on likely gas demand on their networks in some circumstances.

Disadvantages

Modification Proposal 0244

- May have a minor effect on Gas Transporters cash flow.
- Increases short-term socialisation of costs.
- Scotia Gas Networks consider the Proposal in unnecessarily complicated and take significantly longer to implement.

Modification Proposal 0244A

- Unexpected decreases in DM Supply Point Capacity could lead to lower than forecast allowed revenue recovery in 2009/10 for transporters (and subsequent years). This will result in higher unit charges in future, and

could result in an additional pricing changes being proposed during the Formula Year.

- The decrease in allowed revenue could lead to a greater level of socialised costs.
- The introduction of the proposed exception may undermine the existing capacity and charging regime.

Gazprom felt the following disadvantages for 0244A should be considered.

- Introduces unnecessary discrimination between applications for capacity reduction, based on reasons for reduction with certain types of customers paying inappropriate costs as they cannot reduce their capacity.
- Does not remove the risk that customers will isolate from the network and then wish to reconnect at short notice.
- Prevents transporters from receiving more accurate information on likely gas demand on their networks in a timely manner.
- Creates unnecessary administrative processes as Shippers confirm to the Transporters the reasons why such a site requires a capacity reduction in accordance with the Shippers licence conditions.
- Scotia Gas Networks consider the Proposal in unnecessarily complicated and take significantly longer to implement.

Modification Proposal 0244B.

- Requires UK-Link changes the extent of which has not been quantified. However the likely extent of systems development work required suggests that early implementation would not be possible.
- Likely to lead to an under recovery of transportation revenues in 2009/10 leading to increased charges in the subsequent period for all Users.

Gazprom felt the following disadvantages for 0244B should be considered.

- Customers will be required to incur inappropriate costs for considerable lengths of time as they wait for the Capacity Reduction window to open.
- Does not remove the risk that customers will isolate from the network and then wish to reconnect at short notice.
- Prevents transporters from receiving more accurate information on likely gas demand on their networks in a timely manner.
- Creates unnecessary administrative processes as Shippers confirm to the Transporters the reasons why such a site requires a capacity reduction in accordance with the Shippers licence conditions.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Summary of written representations received

Respondent	Modification Proposal		
	0244	0244A	0244B
British Gas	Does not Support	Does not Support	Does not Support
BOC	Supports	Does not Support	Does not Support
Chemical Industries Association	Supports	No comments offered	No comments offered
Corona Energy	Supports (Preferred)	Qualified Support	Does not Support
Corus	Supports	Qualified Support	Does not Support
EDF Energy	Supports	Supports (Preferred)	Does not Support
E.ON UK	Does not Support	Qualified Support	Does not Support
Gazprom Marketing and Trading	Supports	Does not Support	Does not Support
Hanson UK and Heidelberg Cement	Supports	No comments offered	No comments offered
National Grid Distribution	Does not Support	Does not Support	Supports
National Grid NTS	Does not Support	Does not Support	Does not Support
RWE Npower	Does not Support	Supports	Qualified Support
Saint-Gobain UK	Supports	No comments offered	No comments offered
Scotia Gas Networks	Does not Support	Supports	Does not Support
Scottish and Southern Energy	Does not Support	Supports	Does not Support
StatoilHydro	Supports	Does not Support	Does not Support
Wales & West Utilities	Does not Support	Qualified Support (Preferred)	Qualified Support

In summary, of the 17 responses received during the consultation:

9 supported implementation of Proposal 0244;

4 supported and 4 offered qualified support for the implementation of Proposal 0244A;

1 supported and 2 offered qualified support for the implementation of Proposal 0244B.

Additional comments:

British Gas considers Proposals 0244, 0244A and 0244B will have the

following impacts:

- i) Unfair targeting of costs will have a detrimental effect on the accurate targeting of costs, because the reduction in charges at one Exit point would need to be balanced with increases in charges more generally, so that the Transporters can recover their allowed revenue. This would mean that other users and sectors will have to pay more so that others could pay less. In particular, they would be very concerned if these proposals led to an increase in capacity charges to the domestic sector.
- ii) Reduced predictability of costs will result in short term under recoveries as charges are reduced for some sites followed by over recoveries for the network owners to recover their allowed revenues. Costs will therefore be more volatile and less predictable.
- iii) Contrary to principles of charging methodologies these Proposals are counter to the rationale for the introduction of the revised capacity and commodity split (DNPC03).
- iv) There is potential, particularly with Proposal 0244, for Shippers to abuse these arrangements so that their costs are artificially reduced at the expense of the rest of the Shipper community.

Corona Energy notes one of the disadvantages of Proposal 0244A is its use of the existing Capacity Revision Application process which can be lengthy and is in places subjective. While this process has proved adequate to manage increases in capacity bookings it is unclear that it is appropriate for managing decreases in capacity bookings. For example it is unclear why Transporters should need to perform site visits to verify the usage of a site when the site is DM metered.

Corona Energy consider Proposal 0244B to have two significant flaws:

- i) The change to the ratchet regime. Corona Energy understands the intent of the Proposal is for this to act as a disincentive for misuse of the process. Unfortunately it has the inadvertent consequence of changing the ratchet regime for all sites. Any change to the ratchet regime would need to be considered much more carefully and as part of a review of the overall operation of the capacity regime including the use of the winter period and an annual AQ review.
- ii) The suggestion that the regime should expire on the 30th September 2011 suggests the Proposer considers the inequality of rights between DM and NDM sites will either not exist after this date or will not matter.

EDF Energy notes that one of the discrepancies within the UNC is that only NDM LSP sites can appeal their Aqs and SOQs outside of the AQ Amendment window. However, given that this is a concept that already exists for NDM LSP sites, EDF see no reason why it can not be extended to DM sites.

National Grid Distribution has concerns regarding the composition of Modification Proposal 0244. These are as follows:

- i) The Proposal features the ability to lower the BSSOQ. This is a value which is determined by actual consumption patterns and is

used to derive interruptible commodity and capacity unit charge rates. Consequently this should not be subject to amendment by Users.

- ii) The Proposal has the effect of ‘commoditising’ the capacity charging regime. Currently DM capacity is booked prospectively and should reflect the anticipated maximum use of the system over a gas year (October to September). The Proposal is inconsistent with this in that it would enable Users to be able to change, or profile, the SOQ/BSSOQ ‘within year’ without restriction in absence of adequate controls (the liability for capacity charges would only be applied retrospectively by the DNO and would only apply if the SOQ were raised twice following a reduction). National Grid Distribution’s view is that capacity provided is an annual product and hence whilst they can allow flexibility to change the annual level they do not consider a ‘within year product’ to be necessary to deliver the intent of Modification Proposal 0244.
- iii) Under Proposal 0244, Users would warrant that a change in SOQ is necessary and the DNO has no ability to verify or reject any DM exceptions claims. This is inconsistent with the BTU Form process and lacks sufficient control to ensure that the impact of proposed changes can be identified and appropriate charges levied to ensure non discrimination between parties.

National Grid Distribution considers that Proposal 0244A would, in common with 0244, entail a significant change to the capacity regime, and thus to the transportation charging regime. They believe this is not in proportion to the perceived problem driving the change. They therefore consider that 0244A does not strike an appropriate balance to enable Users to register prospective SOQ values in line with ongoing usage.

National Grid Distribution foresee difficulties in validating claims of reduced consumption. They therefore consider implementation of Proposal 0244A would result in a lack of control over interruptible loads which account for most of the ‘mandatory’ DM Supply Points. The implementation of UNC Modification 0210 on 1 October 2008 effectively created an incentive to book the appropriate SOQ i.e. capacity charges at Interruptible Supply Points. However, removing the rule to prevent the SOQ falling below the BSSOQ creates the risk that interruptible loads may nominate a value lower than actual requirements to reduce aggregate capacity charges. As the capacity charge rate is determined by the BSSOQ, reducing the registered SOQ will not increase the capacity charge rate.

National Grid Distribution is concerned that, if implemented, Proposal 0244A would lead to an increased level of uncertainty due to unrestricted SOQ fluctuation which makes forecasting transportation revenues difficult. This could lead to increase prospective levels of “K” on an enduring basis and potentially give greater instability in transportation charge levels from year to year.

National Grid Distribution supports implementation of Modification Proposal 0244B. Adding that its transitional nature addresses the concerns of end

consumers in the most efficient way. The key driver for all these Proposals is the nature of the current economic conditions and, in anticipation of such conditions themselves being transitional, National Grid Distribution considers the measures proposed should not be enduring.

National Grid Distribution considers any capacity reduction should be restricted to within the existing capacity reduction window, so as to retain the nature of the existing capacity regime.

RWE Npower concur that the only option currently available to a DM LDZ Supply Point attempting to reduce the amount which it pays in Capacity Charges is to isolate and withdraw from the site. The drawbacks to this are manifold, including a drop to zero in the Charges contributed by that particular site. Given this, RWE Npower consider it is logical to allow eligible Supply Points to revise their SOQ downwards in order to reduce their costs and reflect their current level of gas usage. Modification Proposal 0244 suggests that BSSOQ could also be revised downwards. However, RWE Npower agree with Wales & West Utilities that, although it would be possible under Proposed Modification 0244A for the SOQ to be dropped below the BSSOQ, the BSSOQ level should remain the same as this is merely a factual data item and amending it could potentially distort its value as a data record.

In addition, RWE Npower agree with Wales & West Utilities and National Grid Distribution that Distribution Network Operators should be given the opportunity to validate or reject applications for a reduction in SOQ by an eligible LDZ Supply Point which is something which Modification Proposal 0244 does not provide for. RWE is concerned that the retrospective invoicing of charges contained in Proposed Modification 0244 would result in significant implementation costs which may be disproportionate to the issue that the Modification Proposal is seeking to resolve. Giving the DNOs the power to reject or approve SOQ reduction applications should avoid this potential inefficiency as they are likely to have a more detailed view of whether or not a Supply Point is likely to increase its gas usage in the near future after dropping its SOQ.

Scotia Gas Networks consider Modification Proposal 0244A to be a more practical approach. It provides the equitability required to progress this issue, by introducing a process which is similar to that used for NDM sites and requires minimal system / process changes. In comparison to Proposal 0244 this Modification Proposal will significantly reduce the number of sites that would be eligible to apply for a reduction in capacity.

SSE felt the exception process as described by Proposal 0244A better facilitates the relevant objectives than 0244 as it requires demonstration of demand reduction rather than just requesting an amendment to the SOQ. SSE consider that an unsubstantiated process such as that described in Proposal 0244 could lead to inappropriate, untargeted smearing of costs, via K, to other customers. In addition Proposal 0244 proposes making amendments to the BSSOQs which SSE does not agree with as this is a factual data item. The temporary fix as advocated by Proposal 0244B does not provide a permanent solution.

Statoil do not agree with the suggestion in both 0244A and 0244B that

consumers should be required to provide evidence to support their requested reduction in supply point capacity and that the acceptance or not of such a reduction request would be at the sole discretion of the Distribution Network Operator. Proposal 0244 contains sufficient provisions to deter abuse of the proposed regime without the use of an unnecessarily restrictive exception/evidence gathering process.

Wales & West consider Modification Proposal 0244 is seeking a mechanism to amend the BSSOQ as the SOQ (under existing UNC arrangements) has to remain at least equal to it. Both Modification Proposals 0244A and 0244B address this issue by allowing the SOQ to be reduced below the BSSOQ rather than allowing for incorrect BSSOQs to be nominated.

Wales & West add Modification Proposal 0244 also seeks to introduce an 'incentive regime' that is designed to prevent Users from taking advantage of a reduced SOQ, during a period of low usage, and then increasing the SOQ when the capacity is required (e.g. summer/winter profiling). WWU have concerns that this incentive regime would not be sufficient to prevent this scenario occurring and would be a large, and possibly unmanageable, administrative burden on the Transporters.

Wales & West consider Modification Proposal 0244B introduces Supply Point Ratchets and Charges for interruptible sites. This has been proposed instead of an application mechanism or an 'incentive' mechanism (as in Modification Proposal 0244). This would be an additional system change over and above the changes required for 0244A. From the initial analysis carried out by xoserve, it is likely that the cost and timescales involved with implementation of Modification Proposal 0244B will be greater than those associated with Modification Proposal 0244A.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

A programme of works will be required dependent upon the Modification Proposal and system solution adopted.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective

impacts)

Implementation timescales for any of Modification Proposals 0244, 0244A and 0244B are contingent on the timing of relevant systems changes and processes. Implementation prior to October 2009 may not be possible.

Corona Energy notes that offline functionality exists within xoserve to invoice sites off-line through the Unique Sites process. It would therefore be possible for the GTs to use this functionality as an interim measure in lieu of general system functionality. Therefore, Coronal Energy requests Ofgem to consider directing the implementation of Proposal 0244 in advance of general systems functionality being developed should they be minded to implement Proposal 0244.

Wales & West consider Modification Proposal 0244 would require significant changes to be made to the UK Link system and Distribution Network Operators own network management systems. Implementation timescales would need to allow for these changes to be made and it could take over 6 months to make such changes. Modification Proposal 0244A would require fewer changes to be made to UK Link systems and few, if any, changes to Distribution Network Operators systems. It is anticipated that Modification Proposal 0244A could be implemented with 2-4 months. These dates are based on the high level analysis that xoserve have carried out and would be from the point that a decision from Ofgem is made.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing these Modification Proposals upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

One Modification Panel Member provided a written vote indicating support for Proposal 0244.

At the Modification Panel meeting held on 30 April 2009, of the eight Voting Members present, capable of casting nine votes, two votes were cast in favour of implementing Modification Proposal 0244. Therefore the Panel did not recommend implementation of Proposal 0244.

At the same meeting, of the eight Voting Members present, capable of casting nine votes, three votes were cast in favour of implementing Alternative Proposal 0244A. Therefore the Panel did not recommend implementation of Alternative Proposal 0244A.

At the same meeting, of the eight Voting Members present, capable of casting nine votes, one vote was cast in favour of implementing Alternative Proposal 0244B. Therefore the Panel did not recommend implementation of Alternative Proposal 0244B.

The Panel then proceeded to vote on which of the three Proposals would be expected to better facilitate achievement of the Relevant Objectives. Of the

eight Voting Members present, capable of casting nine votes, no votes were cast in favour of implementing Proposal 0244 in preference to Alternative Proposals 0244A and 0244B, eight votes were cast in favour of implementing the Alternative Proposal 0244A in preference to Proposals 0244 and 0244B, and two votes were cast in favour of implementing the Alternative Proposal 0244B in preference to Proposals 0244 and 0244A. Therefore, the Panel determined that, of the three Proposals, Proposal 0244A would better facilitate the achievement of the Relevant Objectives.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks agreement from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

UNC0244 Appendix 1.

Example 1a.

DM Site X submits an exception request:

Original AQ: 100,000,000 kWh

Original SOQ: 1,000,000 kWh

Original BSSOQ: 800,000 kWh

Requested AQ: 50,000,000 kWh

Requested SOQ: 500,000 kWh

Requested BSSOQ: 500,000 kWh

This is granted and the sites SOQ changes

Example 1b.

DM Site X submits a reapplication after 9 months:

Re-requested AQ: 700,000,000 kWh

Re-requested SOQ: 700,000 kWh

Re-requested BSSOQ: 500,000 kWh

This request is granted.

xoserve recognises this is a second application within a 12 month window. The site is charged the difference in capacity charges as follows:

Daily capacity charges based on the re-requested AQ of 700,000,000 kWh, SOQ of 700,000 kWh and BSSOQ of 500,000 kWh	Minus	Daily capacity charges based on the original requested AQ of 500,000,000 kWh, SOQ of 500,000 kWh and BSSOQ of 500,000 kWh	Multiplied by	The number of days between xoserve amending the AQ, SOQ and BSSOQ originally requested and the consequential amendment of the AQ, SOQ and BSSOQ in the second request.
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xoserve also levies a user pays charge to reflect their costs of administering the application plus their costs to calculate and bill the retrospective transportation charges.

Example 1c

18 months later DM Site X uses the normal confirmation process to request a SOQ back at the original 1,000,000kWh level. This is rejected as the capacity has been reallocated elsewhere.