

Stage 02: Workgroup Report

0374:

Interruptible to Firm – Supply Point Transition

What stage is this document in the process?

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

The Proposal sets out a “soft landing” for those sites being forced to transfer from Interruptible to “Firm” Status with effect from 1st October 2011.



The Workgroup recommends that Modification 0374 is sufficiently developed to proceed to the Consultation Phase



High Impact:
None



Medium Impact:
None



Low Impact:
SPA transactions for c.1,150 interruptible supply points

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 21 July 2011, on whether Modification 0374 is sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of this self-governance modification.



3 **Any questions?**

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1 Summary

Is this a Self-Governance Modification

The Modification Panel did not determine that this modification should follow the self-governance route.

Why Change?

To reduce the risk of customers being exposed to ratchets without an appropriate period of time to verify their peak load requirements and make appropriate amendments to their SOQ.

Solution

This modification proposes that ratchet charges will not be levied for a Site transferring from Interruptible point status to a Firm Daily Metered Meter Point from 1st April 2011 until 30 September 2012

Impacts & Costs

No major impacts have been identified and it is anticipated that costs will be minimal as the proposal is to suppress the submission of Ratchet Charges with the minimum impact on the existing process.

Implementation

It is proposed that the modification is implemented as soon as possible to provide surety to industry participants as to how they will be treated during the transition from Interruptible to Firm.

The Case for Change

Protection from ratchet charges for one year is proposed in the interests of allowing Consumers forced to change from Interruptible to Firm status time to adjust to the new regime.

The approach is consistent with previous changes including the recent introduction of the Daily Metered Elective Product. As Consumers are being forced to change products it is likely that many will take the opportunity to review existing supply arrangements and this may lead to more switching taking place in the run up to October.

This could lead to timing issues when trying to ensure the appropriate SOQs are set as the Appeals process will need to be utilised and potential Network Analysis undertaken if the existing SOQs are altered to reflect current requirements.

With the level of work required to transfer sites along with the potential embargo on registration and the default transfer of Consumers on existing data as a back stop (as proposed in Modification 0367), it is important to provide protection to Consumers in the first year of being transferred to a Firm load.

Recommendations

The Workgroup recommends that this Modification be issued for consultation.



"Mod 90" or "interruption reform"

"Mod 90" introduced new arrangements that removed the "on-demand" interruptible service from the UNC. With effect from 1 Oct 2011, where a DNO has a requirement for interruption, this will be sourced through an auction process

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2 Why Change?

This modification has been raised to provide a soft landing when interruptible loads must transition to firm status on or before 1 October 2011. This change is event related and the rules introduced will be transitional in nature; implementation will have no enduring effect on the operation of the Uniform Network Code.

For sites being mandated to transition from Interruptible to Firm it avoids the risk of exposure to ratchets for the initial 12 month period which will allow Customers an appropriate period to verify peak load requirements without being subject to penal charges.

3 Solution

DM Ratchets

This modification proposes that ratchet charges will not be levied for a Site transferring from Interruptible meter point status to a Firm Daily Metered Meter Point from 1st April 2011 until 30 September 2012

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objective f.**

Proposer's view of the benefits of 0367 against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipeline system.	No
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipeline system of one or more other relevant gas transporters.	No
c) Efficient discharge of the licensee's obligations.	No
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	No
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

f) Promotion of efficiency in the implementation and administration of the Code

These transitional arrangements will allow a soft landing, which protects consumers who may not be familiar with the forthcoming changes to the Modification Rules, from the potential risk of ratchet mechanisms and is consistent with efficient implementation of the UNC. It will allow them time to establish appropriate SOQ levels under a Firm regime without suffering penal charges.

Some Workgroup members were did not agree this modification furthers this relevant objective as sufficient notice of change has been given to the industry and Users are should be able to use historical site specific information to identify appropriate SOQs.

5 Impacts and Costs

Consideration of Wider Industry Impacts

Implementation would not be expected to be inconsistent with any wider industry developments.

Costs

It is anticipated that costs will be minimal as the proposal is for Charges to be suppressed and this is consistent with the approach taken elsewhere e.g. DME. However, A system based solution would cost in the region of £100k, with a manual solution costing 50% less.

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
The proposal is not Users Pays since no User Pays service is proposed or changed.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
N/A	
Proposed charge(s) for application of Users Pays charges to Shippers	
N/A	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
N/A	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> Manual suppression of Ratchet charges will be required
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> None

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Impact on Users	
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None envisaged

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• None
Development, capital and operating costs	• None
Recovery of costs	• None
Price regulation	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• Some changes are required and are detailed in the draft text for this proposal.
UNC Committees	• None
General administration	• None

Impact on Code	
Code section	Potential impact
Transition Document IIC	Additional paragraph to be added.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None

Impact on UNC Related Documents and Other Referenced Documents	
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

6 Implementation

It is proposed that the modification be implemented as soon as possible following a decision from Ofgem, to provide surety to industry participants as to how Consumers will be treated from October 2011.

7 The Case for Change

In addition to that identified the above, the following has been identified:

Advantages

- Consumers who are being forced to switch are protected from Ratchet charges for a reasonable period, which will allow them to establish appropriate SOQ levels without suffering penal charges.
- [The approach being proposed is consistent with the protection afforded customers voluntarily accessing the DME product and allows an appropriate time for customers to establish suitable levels of SOQ.]
- Consumers will be provided with a window during which they can establish appropriate levels for SOQ with the relevant Transporter e.g. appeals, re-enforcement works etc.

Disadvantages

- Consumers will not be charged for Ratchets, which occur during the “soft landing” window.

8 Legal Text

Text, either suggested or formal, should be inserted at this point. The status of this text should also be stated.

Insert subheading here

Insert text here

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0374 be submitted for consultation; and
- AGREE that Code Administrators should issue the 0374 Draft Modification Report for consultation with a close-out of [15 September 2011] and submit results to the Panel to consider at its meeting on Panel meeting date [21 July 2011].