

John Bradley  
**Joint Office of Gas Transporters**  
31 Homer Road  
Solihull  
B91 3LT

Richard Court  
Commercial Manager  
National Grid Distribution  
Richard.court@uk.ngrid.com  
Direct tel +44 (0)1926 656146  
Direct fax +44(0)1926 656602

[www.nationalgrid.com](http://www.nationalgrid.com)

24<sup>th</sup> April 2009

Your Reference: 0244, 0244A, 0244B

### **Re: UNC Modification Proposal 0244, 0244A & 0244B**

Dear John,

Thank you for your invitation seeking representations with respect to the above UNC (Uniform Network Code) Modification Proposals. National Grid Distribution (NGD) is supportive of implementation of Proposal 0244B but does not support implementation of 0244 and 0244A.

In the current economic climate NGD has been advised that a significant number of consumers are reducing their levels of production. As a consequence of concerns particularly raised by one consumer, Corus, Corona Energy has raised UNC Modification Proposal 0244. This seeks to address an issue where a Daily Metered (DM) Supply Point has a Supply Point Capacity (SOQ) in excess of what is currently required. Furthermore, under the current UNC it is also possible that a Supply Point will have a Bottom Stop Supply Point Capacity (BSSOQ) set at a level consistent with requirements before the impact of the current economic conditions took effect. The UNC prevents the User from registering an SOQ below this level from October 2009, which is reflective of the Supply Point's requirements from October 2009 to September 2010. For this Supply Point, the UNC in effect prevents the SOQ being registered at the required level until October 2010 and exposes the User to capacity charges in relation to Supply Point Capacity that is no longer required. The BSSOQ is a value (set at the commencement of each gas year) equal to the peak daily consumption in the previous winter period.

Corona is seeking the flexibility to make a reduction in SOQ and BSSOQ at any time during the year on an enduring basis. At present reduction of the DM SOQ can only be actioned by Users between October and January each year which we believe is aimed at controlling potential inappropriate behaviour i.e. selection of summer (low) and winter (high) SOQ levels. Corona has argued that such flexibility is necessary to bring about consistent treatment, with exceptional processes for DM Supply Points equivalent to those for Larger Supply Point (LSP) Non-daily Metered (NDM) Supply Points, and thus to reduce the level of Transportation charges Users would be exposed to in respect of relevant Supply Points.

NDM Supply Points have an SOQ derived from their Annual Quantity which is determined from User sourced Meter Readings. Accordingly, the SOQ and Annual Quantity (AQ) for NDM Supply Points are based on historic load requirements and it is assumed such values are representative of the subsequent gas year. An exceptions process, the 'BTU Form', therefore is necessary to enable Users to provide additional information where an NDM Supply Point's historic demand profile is no longer representative of their future usage. It is not expected that the BTU Form would be used on multiple occasions and gives necessary and justifiable flexibility when appropriate. DM Supply Points have a registered SOQ which should be the SOQ forecast by the User to represent the subsequent gas year maximum capacity requirement. It is therefore questionable whether such an exceptions process is necessary for DM Supply Points.

Changes to the Distribution Network Operator (DNO) charging methodology in terms of the 95/5 apportionment of capacity/commodity charges and capacity charging at Interruptible Supply Points have been cited by Corona

as exacerbating the economic impact under the circumstances where they are unable to reduce the registered SOQ (and associated charges) to a level reflective of their ongoing requirements. Firm Supply Points may have reduced demand and under the current charging methodology may be exposed to a higher level of Transportation charges than they previously were because of the increased proportion of capacity charges. This is likely to be a more significant issue for Interruptible Supply Points that paid commodity based LDZ System charges only until October 2008. NGD considers the current Charging Methodology to be consistent with its Licence obligations and more cost reflective than the previous charging regime. DNOs proposed the 95/5 apportionment of capacity/commodity with consideration to the existing UNC capacity regime whereby SOQs generally do not change over a gas year. We therefore do not support any unwarranted flexibility that undermines the basis of the DNO Charging Methodology and do not believe that comparison to previous, less cost reflective charging regimes is a justified rationale for changing UNC.

However, we do believe that Users should be able to register an appropriate SOQ that is representative of prospective gas year requirements and believe that UNC should be modified to assist in this respect.

An initial assessment of implementation costs has indicated that Proposal 0244A would incur the lowest level of costs, and Proposal 0244B the highest. The implementation costs of Proposal 0244 are likely to fall in between the two.

### **Modification Proposal 0244 'Amending DM Supply Point Data for Sites with Significant Changes in Usage'**

Currently, the UNC permits reduction of the SOQ only during the winter months however this reduced value must be equal to or greater than the prevailing BS SOQ. Corona's Proposal is to allow the reduction of the BS SOQ and SOQ all year round on an enduring basis subject to a warranty from the User that the revised values represent a reasonable assumption of gas demand for the next gas year. We believe that such a proposal undermines the introduction of capacity charges for Interruptible Supply Points as set out within the DNO's charging methodology DNPC03.

NGD has concerns regarding the composition of Corona's Modification Proposal 0244. These are as follows:

- 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.
- 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). Our view is that capacity provided is an annual product and hence whilst we can allow flexibility to change the annual level we do not consider a 'within year product' to be necessary to deliver the intent of Corona's Modification Proposal.
- There would be no incentive or control preventing Users at Interruptible Supply Points reducing SOQ/BSSOQ values to a minimum value (which is not reflective of actual consumption) so as to minimise their transportation charge liability. Currently Supply Point ratchets are not applied for Interruptible Supply Points and the BS SOQ is the only UNC protection against such actions.
- Under the proposal, 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.

### **Modification Proposal 0244A 'Introduction of an Exception Process for Decreases in Supply Point Capacity (SOQ) at Daily Metered (DM) Supply Points'**

This Proposal effectively seeks to enable the Registered User to reduce the SOQ to a value below the prevailing BS SOQ at any time. This change would enable SOQs to be reduced in a similar manner to Modification Proposal 0244, allowing within year changes and potential profiling of capacity requirements, but no re-definition of the BSSOQ would be required and potential DNO validation would be introduced. We consider that the proposal would, in common with 0244, entail a significant change to the capacity regime, and thus to the transportation charging regime. We believe this is not in proportion to the perceived problem driving the change. We therefore consider that 0244A does not strike an appropriate balance to enable Users to register prospective SOQ values in line with ongoing usage.

We foresee difficulties in validating claims of reduced consumption. We note that the proposal states the DNO or xoserve would validate the request, however, even if a site visit were undertaken, the party may have no reasonable means to validate the claims of the consumer. Our view is that such an assessment may only provide an appreciation of site conditions at that point in time and may not provide ongoing re-assurance. Therefore we believe implementation of this proposal would result in a lack of control over interruptible loads which account for most of the 'mandatory' DM Supply Points. Such Supply Points would be able to nominate a low value of SOQ with no adequate and robust validation.

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.

We believe that a more reliable, systematic and enduring approach is to make Interruptible Supply Points subject to Supply Point Ratchets as advocated by NGD's Alternate Proposal (0244B). We believe this would create an effective incentive to specify accurate SOQ values and further provides a timely, reliable and proportionate response to instances where the consumption exceeds the Registered SOQ. Such an approach is proven in respect of Firm Supply Points and as all Supply Points will pay ratchets from October 2011 (commencement of revised DNO interruption arrangements) this would effectively bring forward an existing control as opposed to creating a new one.

We are concerned that if implemented, this Proposal 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.

### **Modification Proposal 0244B 'Amending DM Supply Point Data for Sites with Significant Changes in Usage'**

The key features of the regime proposed are:

- 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, and
- 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. This provision ensures that the DNO is able to validate that the request is for a bone fide 'mandatory' DM Supply Point.

Additionally 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).

As proposer, NGD supports implementation of this Modification Proposal. We believe that its transitional nature addresses the concerns of end consumers in the most efficient way. Noting that the 'sunset' terms expire on 30th September 2011, if this alternative were implemented, levels of participation in the new regime and its effectiveness could be gauged following a predetermined period. The key driver for all Proposals is the nature of the current economic conditions and in anticipation of such conditions themselves being transitional, we believe that the measures proposed should not be enduring. However, if necessary, further proposal/s could be raised to extend the relevant transitional term as a consequence of economic events and/or to identify further enhancements to the regime should these be desired.

NGD believes that any capacity reduction should be restricted to within the existing capacity reduction window, so as to retain the nature of the existing capacity regime. Further, we believe that, under Mod 0244 and 0244A, the proposed safeguards aimed at maintaining the integrity of the process are insufficient.

We believe this alternative proposal advocates a significantly simpler regime which we believe addresses limitations contained within Mod0244 and Mod0244A whilst also meeting many of the concerns of Users. It also maintains the integrity of the UNC capacity regime and hence does not undermine the current Charging Methodology.

### **Implications For Transportation Revenue**

Based on recent data (for February 2009) from xoserve, we estimate 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, we estimate that there might be an additional capacity revenue reduction of the order of £5m under any of the 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 (K) of around £5million at March 2010 (across all four NGD 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, NGD 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.

We are of the view that whichever measures are introduced, these 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' requirements from October. 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 regimes and experiences gained during the transitional period.

If you require any further information in respect of this representation please contact Chris Warner on 01926 653541 or email [chris.warner@uk.ngrid.com](mailto:chris.warner@uk.ngrid.com).

Yours sincerely

Richard Court  
Commercial Manager