

CODE MODIFICATION PROPOSAL No 0244A
Introduction of an Exception Process for Decreases in Supply Point Capacity (SOQ) at
Daily Metered (DM) Supply Points
Version 1.0

Date: 08/04/2009
Proposed Implementation Date: October 2009 (at the latest)
Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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

question (UNC TPD Section G5.1.11);

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.

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

Non-urgent

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

This Proposal has been raised as an Alternative Proposal to Modification Proposal 0244 and should therefore follow the same timescales.

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

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

Implementation would not be expected to better facilitate this relevant objective

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (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;

Implementation would not be expected to better facilitate this relevant objective

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

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.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (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;

This Proposal 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 this Modification Proposal would target costs more appropriately and so may better facilitate relevant objective A11.1(e)(i).

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) 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 sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

Implementation would not be expected to better facilitate this relevant objective

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

No such implications have been identified

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

a) The implications for operation of the System:

No such implications have been identified

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

We would expect that this exception process 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 we will make this information available once it is known.

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

No cost recovery mechanism is proposed in relation to this Modification Proposal and the transporters would fund the necessary UK Link changes.

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

The level of contractual risk for each transporter would not be significantly impacted upon by the implementation of this Modification Proposal.

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

Implementation is not required in order to facilitate compliance with any notice issued under Standard Condition A11 (14)

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

Changes would be required to the UK Link system in order to implement this Modification Proposal. Our initial view is that it could be implemented within 2-4 months. xoserve are currently evaluating this Modification Proposal and we will provide the Modification Panel with any further updates relating to this.

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

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

There would be limited administrative and operational implications on Users as the proposed exception process is based on the existing Capacity Revision Application process.

b) The development and capital cost and operating cost implications

We are not aware of any development or capital cost implications for Users.

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

We are not aware of the impact on contractual risk for Users that this Modification Proposal would introduce. Users are requested to clarify this within their Representations.

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

The implementation of this Modification Proposal 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).

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

No such consequences have been identified

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

- 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

Disadvantages

- 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.

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

No representations have been received in relation to this Modification Proposal at this time.

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

No other representations have been received

13 Any other matter the Proposer considers needs to be addressed

The usage of BSSOQ and the current Supply Point Ratchet regime have all been discussed in relation to the issues raised in Modification Proposal 0244. This Modification Proposal does not seek to change the existing arrangements for these but we believe that these should be reviewed in future.

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

Implementation may be possible within 2-4 months following an Authority decision and will also be subject to the timing of other projects and priorities. Due to the short timescales leading up to this Alternative Modification Proposal we have yet to confirm implementation timescales. However, we will inform the Modification Panel as and when more information becomes available. We can confirm that the system impacts will be less than the changes required for implementation of Modification Proposal 0244.

15 Comments on Suggested Text

Not applicable.

16 Suggested Text

Suggested text has not been provided.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) G

Proposer's Representative

Simon Trivella (Wales & West Utilities Ltd)

Proposer

Simon Trivella (Wales & West Utilities Ltd)