CODE MODIFICATION PROPOSAL No 0244
Amending DM Supply Point Data for Sites with Significant Changes in Usage
Version 4.0

Date: 30/03/2009

Proposed Implementation Date:

Urgency: Non-Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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 it's 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 Value 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.

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

There is a real likelihood of significant commercial impact upon Shippers and Customers if this proposed modification is not progressed quickly but due to feedback from DNOs and Ofgem that Urgent status may impact on the ability of participants to comment, CE has chosen to progress this proposal as **Non-Urgent**.

Until this modification is implemented Customers with significant changes in usage will, in most cases (i.e. those Customers with transportation pass-through clauses), continue to pay for capacity they know they will not use. Their only other option would be to have their site isolated. This approach would make it significantly less likely they will take gas again in the future

as the start-up costs for the site would be much greater and the timescale would be longer.

Where Customers fail, (e.g. through bankruptcy) the Shipper will remain liable for capacity charges until the site is isolated and the shipper withdraws from the site. Again this would make it significantly less likely the site will take gas again in the future. This modification could present functionality that could be used to allow shippers and administrators to agree on a lower level of gas usage which would allow businesses to continue to function as a saleable entity.

CE therefore requests that the UNC Modification Panel send this modification out to consultation on reduced timescales sufficient to allow the Final Modification Report to be produced following the April UNC Modification Panel Meeting.

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.

Given the implications of this proposal we would request that it be issued immediately for consultation and follow as short a timetable as possible.

In addition we would note that this issue has been discussed by industry at the Distribution Workstream (23rd February 2009, 12th March 2009 and 26th March). At the last Distribution Workstream it was agreed that it was the opinion of the Workstream that this proposal was sufficiently developed to continue to consultation.

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;

It would appear likely that AQs, SOQs, SHQ and BSSOQs play an important role in planning the short term operation of the pipeline system. Having AQs, SOQs, SHQ and BSSOQs 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.

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;

It would appear likely that AQs, SOQs, SHQ 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.

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. Allowing 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).

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;

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.

By implementing this proposal 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.

This proposal provides Shippers with DM sites the opportunity provided to NDM sites to amend the AQ, BSSOQ and SOQ and therefore affect the level of capacity charges levied.

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 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;

No implications identified.

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

No implications identified.

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

a) The implications for operation of the System:

It would appear logical that AQs, SOQs, SHQ 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.

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

No indication of the likely level of these costs has been provided by the Gas Transporters.

It is recognised that xoserve will have some development costs to allow the DM sites access to the same functionality as NDM sites.

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.

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:

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

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

None identified.

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)

Not applicable.

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

Implications have yet to be identified.

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

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

If Shippers wish to utilise this process then they will need to have

appropriate procedures and policies in place to ensure that the proposed AQ 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.

b) The development and capital cost and operating cost implications

None identified.

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

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.

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)

This issue was raised by Consumers, including at the Gas Customer Forum, and this modification proposal has been developed in response to this. This proposal 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.

By providing an alternative to isolation this proposal 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.

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

None identified

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

Advantages

- Ensures costs are appropriately targeted.
- Helps support British industry and UK GDP
- Provides a pragmatic solution

- Reduces long-term socialisation of costs

Disadvantages

- May have a minor affect on Gas Transporters cash flow
- Increases short-term socialisation of costs

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)

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

13 Any other matter the Proposer considers needs to be addressed

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

In light of the pressing difficulties created by the current economic climate, implementation at the earliest possible opportunity is requested.

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document G 1.6

Section(s)

Proposer's Representative

Richard Street

Proposer

Richard Street - Corona Energy

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.**

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.