Workstream Report
Removal of Bottom Stop SOQ
Modification Reference Number 2083
Version 0.1 Draft

This Workstream Report is presented for the UNC Modification Panel's consideration. The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]

1 The Modification Proposal

NGD raised Review Group 0264 "Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points". This was convened to discuss the appropriateness of the arrangements that determine the Registered User's ability to reduce Registered Capacity at a Daily Metered (DM) Supply Point[1]. The Review Group considered a number of options for developing the LDZ exit capacity regime in anticipation of Interruption Reform commencing 1st October 2011.

Whilst historic Transportation Charging arrangements and the limited application of the existing Supply Point Ratchet terms necessitate the protection afforded by the Bottom Stop Supply Point Capacity ("Bottom Stop SOQ") for the reasons described in detail below, from 1st October 2011 these commercial drivers will no longer exist. Therefore, to prevent the continuance of unnecessary data provision and processing it is proposed that the Bottom Stop SOQ definition and associated provisions are removed from the UNC.

The functions of the Bottom Stop SOQ are as follows:

Bottom Stop SOQ – Charging at Interruptible Supply Points

The Bottom Stop SOQ is defined within UNC TPD section G5.2.3 as: *"…in respect of a DM Supply Point Component is…the amount (the "Preceding Year Maximum Capacity") which is the highest User SPDQ for any Day (other than a Day in the months of June to September inclusive) in the Preceding Year…"*

Prior to implementation of UNC Modification 0210, which revised the apportionment of Transportation Capacity and Commodity charging, Interruptible Supply Points were not subject to Transportation Capacity charges (based on Registered Capacity) and as such only incurred Commodity charges based on kWh throughput.

The Commodity charge unit rate for Firm Supply Points is determined by Registered Capacity (the higher the Registered Capacity, the lower the unit rate charge). If the

[1] More detailed explanation of the background and drivers for Review Group 0264 can be located at: http://www.gasgovernance.co.uk/0264

unit rate for Commodity charges in respect of Interruptible Supply Points was determined on the same basis, an incentive may exist for Users to overstate Registered Capacity to attract a lower unit rate charge. This same incentive does not apply in respect of Firm Supply Points as such Supply Points incur Capacity charges based on the Registered Capacity.

To address the issue highlighted above, the unit rate charge for Interruptible Supply Points is determined by the Bottom Stop SOQ, and not the Registered Capacity. This aspect of the arrangements is specified within UNC Transition Document Part IIC 6.1.3. Such arrangements are transitional as Interruptible Supply Points will cease to exist with effect from 1st October 2011 as a consequence of the application of UNC Modification 0090.

Subsequent to the implementation of Modification 0210, Interruptible Supply Points are subject to Capacity charges and therefore the costs of overstating Registered Capacity (in terms of incurring Capacity charges) outweigh any unit rate benefit in respect of Commodity charges.

Therefore, National Grid Distribution (NGD) believes that use of the Bottom Stop SOQ to determine the unit rate for Commodity Charges is no longer required following the introduction of Capacity charging at Interruptible Supply Points.

Bottom Stop SOQ – Registration of Sufficient Capacity

An additional purpose of the Bottom Stop SOQ is to prevent prospective registration of insufficient capacity at an Interruptible Supply Points. Whilst application of Supply Point Ratchets to DM Firm Supply Points provides a significant incentive to register sufficient Supply Point Capacity at such Supply Points, Interruptible Supply Points are not subject to a Ratchet regime.

As a consequence of implementation of Modification 0090 and the introduction of new DN Interruption arrangements, as described above Interruptible Supply Points will cease to exist from 1st October 2011 and all Supply Points will be subject to Supply Point Ratchets.

Therefore, NGD believes that use of the Bottom Stop SOQ to act as ‘minimum capacity buffer’ will no longer be required.

In light of the above, NGD proposes that the Bottom Stop SOQ be removed from the UNC with effect from 1st October 2011. Therefore, if implemented:

- The Transporters would not be required to record the Bottom Stop SOQ within the Supply Point Register,
- The Transporters would not be required to recalculate the Bottom Stop SOQ on an annual basis, and
- DM Registered Capacity would not be subject to a minimum value equivalent to the prevailing Bottom Stop SOQ.

Bottom Stop SOQ – Determination of Prevailing Supply Point Capacity

A further use of Bottom Stop SOQs is to assist in the derivation of Prevailing Supply Point Capacity in respect of DM Supply Point Components of a Proposed Supply Point which is a New Supply Point as per G5.2.5(b).

In the case of a New Supply Point being established as a consequence of a Supply Point aggregation or dis-aggregation, this derived value provides a figure below which the Prevailing Capacity is not able to be reduced outside of the Capacity Reduction Period. This prevents aggregation or dis-aggregation being used as a means of avoiding the restrictions on the reduction of Supply Point capacity outside of the Capacity Reduction Period.

To maintain the integrity of the regime, it is proposed that in absence of a Supply Point specific Prevailing Supply Point Capacity (determined on the basis of the Bottom Stop SOQ pursuant to G5.2.5(b)) when aggregating or dis-aggregating a Supply Point (to take effect outside of the capacity Reduction Window), the total DMSOQ of all the proposed supply points must be equal to or greater than the total DMSOQ of all the current supply points, i.e. the total minimum DMSOQ of all proposed supply points = total DMSOQ of current supply points, however the meters points are reconfigured.

It is proposed that the above rule replaces the provisions detailed in G5.2.4(b) and G5.2.5.

Business Rules

Bottom Stop Supply Point Capacity

1.1 With effect from 1 October 2011, Transporters would no longer be required to record the Bottom Stop Supply Point Capacity within the Supply Point Register and henceforth would no longer be required to re-calculate the Bottom Stop Supply Point Capacity at the commencement of each Gas Year.

1.2 With effect from the date specified in section 1.1, the Registered User's Supply Point Capacity would not be required to be equal to or greater than the Bottom Supply Point Capacity (as the latter value will no longer exist).

1.3 With effect from the date specified in section 1.1, the proposed Supply Point Capacity specified in a Supply Point Nomination received by the Transporter would not be required to be less than the Bottom Stop Supply Point Capacity (as the latter value will no longer exist) and therefore the Supply Point Nomination would not be rejected for this reason.

1.4 With effect from the date specified in section 1.1, when aggregating or dis-aggregating a Supply Point (to take effect outside of the capacity Reduction Window), the total DM Supply Point Capacity of all the proposed Supply Points must be equal to or greater than the total DM Supply Point Capacity of all the Current Supply Points, i.e. the total minimum DM Supply Point Capacity of all proposed Supply Points is equal to the total DM Supply Point

Capacity of current Supply Points, however the Supply Meters Points are reconfigured.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

c) Proposed charge(s) for application of Users Pays charges to Shippers

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

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

Standard Special Condition A11.1 (a): ***the coordinated, 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 (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;***

Implementation would not be expected to better facilitate 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;

The Proposer believes that implementation would further the GT Licence 'code relevant objective' of the securing of effective competition between relevant shippers by promoting the effective and reflective management of Registered Capacity by Users and thereby ensuring that Transportation charges are apportioned appropriately.

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.***

The Proposer believes that removal of the Bottom Stop SOQ from 1 October 2011 (as effectively a redundant data item) would further the GT Licence 'code relevant objective' of the promotion of efficiency in the implementation and administration of the UNC as from the date the Bottom Stop SOQ will serve no contractual purpose for the reasons explained above. Accordingly, unnecessary complexity and industry processes will be discontinued.

4 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.

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

a) implications for operation of the System:

No implications for operation of the system have been identified.

b) development and capital cost and operating cost implications:

Development costs would be incurred to make the necessary changes to the UK Link systems.

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

No additional cost recovery is proposed.

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

No such consequence is anticipated.

6 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 consequence is anticipated.

7 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 the UK Link system to remove functionality and validation associated with Bottom Stop SOQ.

8 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)

Registered Capacity would no longer be constrained by the Bottom Stop SOQ.

Development and capital cost and operating cost implications

To be advised by Users.

Consequence for the level of contractual risk of Users

Removal of the Bottom Stop SOQ would reduce Users' contractual risk associated with the restriction to the reduction of Registered Capacity due to the existence of the Bottom Stop SOQ.

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

Consumers who wish to reduce their Registered Capacity (for example to reflect a significant reduction in peak consumption) would be able to instruct their Supplier / User to reduce the Registered Capacity recorded within the Supply Point Register to an appropriate level and thus increase flexibility in the Capacity regime relative to the prevailing terms.

For Consumers whose supply charges are based either entirely or partially upon the Capacity charges incurred by the Registered User, this could facilitate reduction in the supply charges accordingly.

10 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

No such consequences have been identified.

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

Advantages

- removes an unnecessary UNC process.
- enables greater flexibility in capacity registration.
- simplifies capacity requirements at New Supply Points.
- reflects requirements for interruption reform from 2011.

Disadvantages

No disadvantages have been identified.

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

No written representations have been received.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

It is suggested that this Proposal be implemented on 01 October 2011 to coincide with the removal of interruptible Supply Points.

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

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Workstream recommendation regarding implementation of this Modification Proposal

The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]