

REVIEW GROUP TERMS OF REFERENCE

CODE REVIEW PROPOSAL No 0329

Review of Industry Charging and Contractual Arrangements in Relation to Supply Point Offtake Rates (SHQs) and Supply Point Capacity (SOQs)

Version 1.0

Date: 21/09/2010

Nature and Purpose of Proposal

In March 2010 Ofgem published their decision letter detailing the outcome of Scotland Gas Networks' (ScGN) application to re-open the current Gas Distribution Price Control. In light of an additional capital expenditure requirement to facilitate network re-enforcement projects resulting from UNC Modification Proposal 090, 'Interruption Reform', the Ofgem decision letter provided an approval to an adjustment of the interruption incentive allowance to take into consideration specific re-enforcement projects.

Although ScGN were permitted additional capital allowances Ofgem detailed within their decision letter certain concerns relating to the current incentives placed upon Shipper Users to provide Supply Point Offtake Rate (SPOR) values (more commonly referred to as supply hourly quantity or shq) to the Transporters which are representative of their usage. The decision letter also specified that Gas Distribution Network Operators (GDNs) should instigate a Review Process to consider if changes should be made to incentivise customers to consider their SPOR usage levels. In addition Ofgem suggested that current customer capacity charges were broadly independent of their contracted SPOR even where the contracted SPOR may require GDNS to incur additional cost in meeting these requirements.

To meet the objectives detailed in Ofgem's decision letter ScGN have raised this UNC Review Proposal to consider the issues raised and ultimately to determine whether any modifications are required to the UNC to rectify any disincentives in this area. To ensure all gas industry participants' views are included in this process ScGN would encourage the active involvement of not only Shipper Users and Transporters but also End User consumer representatives.

Nature of Proposal

It is ScGN's intention that this Review Proposal considers the UNC arrangements for the provision of Supply Point Capacity and Supply Point Offtake Rates by Shipper Users to DNs for all Daily Metered Supply Points. For clarity it is not envisaged this Review Proposal will cover arrangements for Supply Points connected to the National Transmission System although this would not rule out an analysis of current NTS arrangements in relation to DN connected DM sites. In addition to the comments made within the Ofgem decision letter regarding the incentives on Shippers to provide reflective SPORs, ScGN also consider that it would be appropriate to include and focus on the enduring arrangements associated with the setting of minimum and maximum off take rates, specifically with reference to the reduction of and increase of such rates. Following the implementation of UNC Modification Proposal 0275 in December 2009, which provided a temporary mechanism to allow flexibility in capacity booking for DM sites, Ofgem specified any enduring solution would require further analysis and comprehensive review. As any arrangements associated with extending such a regime would impact on a Supply Point's SPOR and SPC, ScGN consider it would be appropriate to include these elements in this UNC Review.

Review Group Terms of Reference

It is proposed that the UNC Review group considers the following areas within its remit:

- Impact on DN investment decisions resulting from the current and any future SPOR/SPC nomination process for the whole GDN GB market, including CSEPS.
- Potential changes to UNC rules governing the setting of Supply Point Offtake Rates and Supply Point Capacity to incentivise Users to provide actual required usage volumes (to include a review of the Supply Point Ratchet regime)
- Impact on DN Transportation charges and recovery of such charges in relation to any changes to the SPOR / SPC regime for the whole GDN GB market, including CSEPS.
- Potential changes to the current process establishing the dynamic between the Supply Point Offtake Rate and the Supply Point Capacity, including the rule specified in UNC TPD Section G 5.4.1 (SPC = between 24 x and 4 x the SPOR).
- The process and timing for reducing both the Supply Point Offtake Rate and the Supply Point Capacity including the 16x rule.
- The process and timing for increasing both the Supply Point Offtake Rate and the Supply Point Capacity rate including the 16x rule.
- Potential impact on end users of any proposed changes.
- Monitoring accuracy of SPORs and SPCs on an ongoing basis.
- Safety issues in relation to Users exceeding SPORs and incentives to minimise any such occurrence.
- Consider impacts on the new connections/siteworks process.

Suggested Aims and Outputs

It is envisaged that this Review Group will produce a report recommending any necessary changes to the UNC. It is recommended that the Review Group complete its work within a nine-month period. If necessary this could be extended by seeking agreement of the Modification Panel.

The Review Group should also look to include any draft Modification Proposals as part of the final report (this does not prevent related Modification Proposals being raised during the period of the Review Group).

Scope and Deliverables

The Review Group shall focus on changes to the UNC and Network planning processes, but also identify where improvements could also be made to areas of governance outside of the UNC.

The Review Group is to consider recommendations based on evidence provided during the topic meetings.

Limits

The Review Group will focus on developing recommendations and UNC Modification Proposals that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes within UNC, however it will not develop changes for non-code processes but will request reports from review group members who can influence changes with the appropriate industry body.

The Review Group is to be mindful of related industry obligations, processes and previous reports:

1. UNC;
2. Flow of information between UNC parties;
3. Licence and Legal obligations;
4. Industry standards and Codes of Practice.

Composition of Review Group

This review group is open to all Transporters and their agents, Code Users, Ofgem and consumer representatives.

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Timetable

It is proposed that a period of nine months be allowed to conclude this review, however given the complexity of the issues this may need to be extended depending on how this review develops.

Although the frequency of meetings will be subject to review and potential change by the Review Group it is suggested that the initial frequency of the meetings be monthly.

Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

Review Group Workplan	
Meeting Number	Topics for Discussion
1 – 21/09/10	Introductions and review terms of reference
2 – 19/10/10	<p>Impact of SOQ/SHQ on DN Investment decisions. To include:-</p> <ul style="list-style-type: none"> • overview of SGN (covering DM and NDM) planning process (which data items are used and their source, why SHQs are used, overview of IGEM network planning document, why there is a 16 times rule for network referral but not below this value) • impact of SOQ / SHQ on SGN planning decisions. • impact of SOQ / SHQ on SGN physical network operation. • Link to investment, price control and charges • Other DNs confirmation of any significant differences in planning process
3 – 23/11/10	Overview of current UNC rules on setting SOQ / SHQ (evidence that they create a problem, especially with respect to incentives to state an accurate SHQ)
4 – 13/12/10	<p>Potential changes to UNC rules governing the setting of SOQs / SHQs. To include:-</p> <ul style="list-style-type: none"> • the current SOQ / SHQ relationship (G 5.4.1). • the current SOQ Ratchet regime. • Data availability and provision to support change • Potential changes to network planning to address identified issues
5 – January 2011	Impact on DN Transportation charges and recovery of such charges in relation to any changes to the SPOR / SPC regime (including the move to 100% capacity and its implications (if any))
6 – February 2011	The process for increase and decrease of SOQ / SHQ. (Monitoring and updating of SOQ / SHQs on an ongoing basis)
7 – March 2011	The process for increase and decrease of SOQ / SHQ. (Monitoring and updating of SOQ / SHQs on an ongoing basis)
8 – April 2011	Conclude Review Group Report.