Review Group Report

Review Proposal 0264

Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points

Draft Version 1

1. Review Proposal

National Grid Distribution raised Review Proposal 0264, for which the Terms of Reference are in Appendix 1.

2. Review Process

In accordance with the Modification Rules, at its meeting on 6 August 2009, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office and approved by Review Group attendees.

3. Areas Reviewed

Under the existing terms of the UNC, a Registered User's Supply Point Capacity at a DM Supply Point:

- is not permitted to be at any time less than the ***Bottom Stop Supply Point Capacity*** (BSSOQ), and
- may only be reduced (below the prevailing Supply Point Capacity) within the ***Capacity Reduction Period*** (01 October to 31 January in a Gas Year)

The ***BSSOQ*** is the peak day consumption (at the Supply Point) within the previous winter period (October to May inclusive) and the revised value is implemented with effect from 1 October (subsequent to the relevant winter period). As a consequence in the worst case scenario the current process may result in the peak day winter consumption influencing the BSSOQ for up to two years.

Within the current economic climate a number of Industrial and Commercial consumers are reducing their levels of production by either mothballing plant or reducing production, or as a consequence premises may become part vacant in the short to medium term. Whilst the UNC allows Users to efficiently *cease* registration at a Supply Point via the Isolation and Withdrawal process, the restrictions on the *reduction* (as opposed to cessation) of capacity outlined above do not allow Users to reflect the reduced demand within the Transportation Charges levied by Transporters in a timely manner. As identified above this may take up to 2 years due to the current timings of the revision of BSSOQs.

The UNC Panel requested the Review Group to consider and report on the following aspects of the Review Proposal:

1. Possible implementation of transitional relief (short term)
    - UNC or other e.g. Supply Contract related remedy?
2. Possible (but not limited to) changes to the BSSOQ / ratchet regimes (long term)
3. In respect of any solutions identified
    - mitigation measures to prevent inappropriate behaviours

- likely impact of any changes on consumers affected
- likely impact of changes on other consumers charges (i.e. costs that are recovered from the remainder of the GDN consumer base)
- the impact on investment decisions

In addition, the Authority provided a number of questions it considered needed to be addressed prior to implementation of short or long term solutions and these are as follows:

1. Evidence of need

2. Sufficient evidence to conclude whether

   a) In practice NDM customers do reduce their capacity with significant impact on the rest of customers, or
   b) Allowing DM sites to reduce their capacity in a similar way to NDM customers would not give rise to inappropriate increase in the share of GDN costs that are paid by NDM customers

3. Evidence that any transitional relief or a long term solution avoids the risk of gaming

4. Evidence to quantify the potential impact of a proposal on consumers. Both those directly affected by the modification and the broader consumer base.

5. Evidence that a proposal better meets the relevant objectives

4. Consideration of Short Term Solutions

The Review Group consider a number of potential solutions proposed by Transporters as options to provide a level of transitional relief from Transporters charges for DM Users wishing to reduce their SOQ and BSSOQ (see Appendices 3 & 4). The Review Group concluded that any solutions requiring systems changes were unlikely to be available for implementation prior to the 31 January 2010 and therefore unlikely to offer any transitional relief to DM consumers.

National Grid Distribution wrote to Users seeking to understand their requirements and needs for a mechanism that offered transitional relief (see Appendix 2). A number of consumer representatives and Users responded either to National Grid Distribution or to the Authority, to make their views known for the need for solutions, whether short or long term. These responses were confidential and details were not made available to the Review Group.

The Review Group considered a proposal to introduce an ‘appeal’ or exceptions mechanism, applicable to the capacity reduction window for the years 2009/10 and 2010/11, such that Users are permitted to seek a reduction in the BSSOQ concurrent with seeking a reduction in the SOQ. This would require a number of time-limited clauses to be introduced into the UNC.

The Review Group tested the appeals mechanism proposal against the Authority questions detailed in section 3 above. A number of Review Group members were concerned there was no evidence provided to prove a need for transitional relief or that other consumer groups would not be unduly impacted by the change. However, the Review Group concluded these were questions that should be considered in the consultation process should a Modification Proposal be raised.

National Grid Distribution confirmed its intention to raise a Modification Proposal and seek urgent status due to the constrained timeline for implementation.

Modification Proposal 0275: Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage was raised by National Grid Distribution and the Authority granted urgent status on 17 November 2009. This concluded the Review Groups discussions on Short Term relief.

5. Considerations of Long Term Solutions

The Review Group were presented with a number of long term solutions for consideration - see Appendix 4 for details.

The Review Consider an option to remove BSSOQ as requirement of UNC and put in place a Supply Point Ratchet process to encourage appropriate behaviours for booking capacity with the transporters. This would ensure a level of confidence that the challenges presented by the Authority can be met. A draft Modification Proposal has included in Appendix 5.

6. Recommendations

The Review considered a number of options for the reduction of demand at DM supply points. In terms of short term solutions National Grid Distribution has developed a Modification Proposal which has been granted urgent status by the Authority.

[Longer Term solutions?]

Appendix 1 – Terms of Reference

REVIEW GROUP DRAFT TERMS OF REFERENCE

CODE REVIEW PROPOSAL No 0264

Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply

Version 1.0

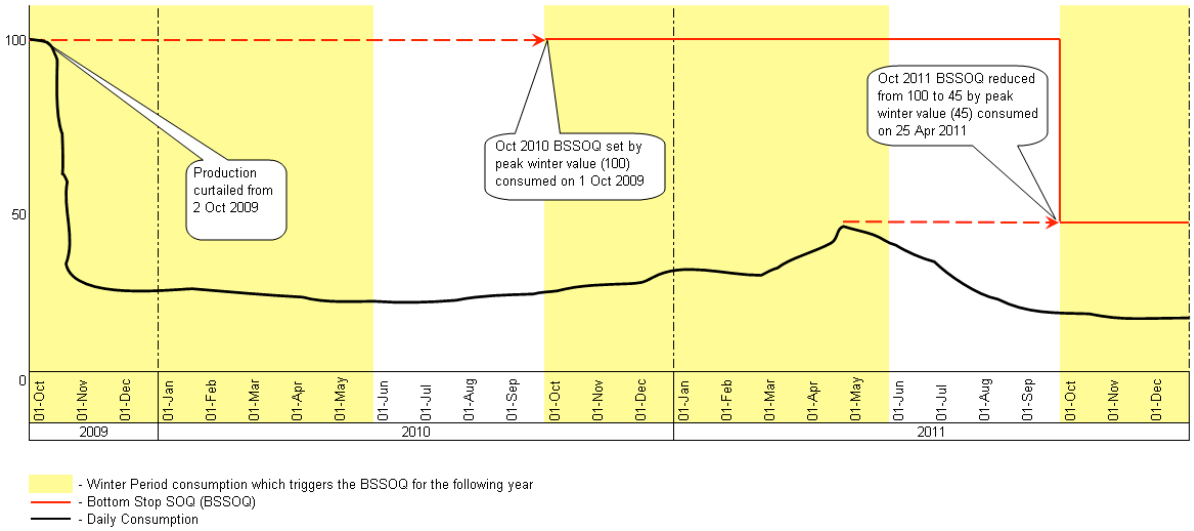
Date: 18/09/2009

1. Nature and Purpose

Under the existing terms of the UNC, a Registered User's Supply Point Capacity at a DM Supply Point:

- is not permitted to be at any time less than the ***Bottom Stop Supply Point Capacity*** (BSSOQ); and
- may only be reduced (below the prevailing Supply Point Capacity) within the ***Capacity Reduction Period.***

The ***BSSOQ*** is the peak day consumption (at the Supply Point) within the previous winter period (October to May inclusive) and the revised value is implemented with effect from 01 October (subsequent to the relevant winter period). As a consequence in the worst case scenario the current process may result in the peak day winter consumption influencing the BSSOQ for up to two years, the following diagram illustrates this:



The ***Capacity Reduction Period*** is the period October to January.

Within the current economic climate a number of Industrial and Commercial consumers are reducing their levels of production by either mothballing plant or reducing production, or as a consequence premises may become part vacant in the short to medium term. Whilst the UNC allows Users to efficiently *cease* registration at a Supply Point via the Isolation and Withdrawal process, the restrictions on the *reduction* (as opposed to cessation) of capacity outlined above do not allow Users to reflect the reduced demand within the Transportation Charges levied by Transporters in a timely manner. As identified above this may take up to 2 years due to the current timings of the revision of BSSOQs.

Subsequent to this issue being raised by consumers at the Gas Customer Forum and the

Demand Side Working Group, Corona Energy raised UNC Modification Proposal 0244 in March 2009. In addition two alternative Proposals (raised by Wales & West Utilities and National Grid Distribution) were raised. All three Proposals sought to introduce measures to address the concerns raised. In summary:

- 0244 - sought to enable the Registered User to vary the AQ, BSSOQ and SOQ at any time subject to a number of restrictions;
- 0244A – sought to enable the Registered User to reduce the SOQ below the BSSOQ at any time subject to a User warranty; and
- 0244B – sought to enable the Registered User (on a transitional basis up to 30September 2011) to reduce the SOQ below the BSSOQ within the Capacity Reduction Period.

Ofgem rejected all three proposals on 20 May 2009. Although it determined that AQs, SOQs, SHQs and BSSOQs that better reflect actual usage would help to ensure that the GDNs book an appropriate level of NTS Exit Capacity required for the consumers connected to their systems, Ofgem also concluded that all of the proposals could increase the risks of stranded assets and inefficient investment and/or lead to NDM consumers having to bear a disproportionate share of the costs of the gas distribution system. On balance therefore, Ofgem concluded that implementation of any of the proposals would not better facilitate the relevant objectives.

In its decision letter Ofgem invited the industry to "*consider whether, in the light of our comments and decision, they wish to consider developing further proposals to address the problem identified*".

To meet this objective, National Grid Distribution (NGD) proposes that a Review Group be established to identify the extent of the issue, determine the impacts and evaluate whether any changes (to the UNC or otherwise) are necessary. We believe that this is an appropriate way forward as a Review Group can accommodate the participation of all parties in considering whether change is necessary. To ensure that a robust conclusion is reached it is suggested that the Review Group requires the active participation of Users and also consumers to accurately identify the scale and significance of the issue. Ofgem identified that there was a lack of analysis submitted in respect of the 0244 Proposals and therefore a Review Group would facilitate a co-ordinated approach to the collation of analysis and evidence that is available.

2. Topics for Discussion

The following topic items are included within scope of the Review Group and should be considered within the Terms of Reference:

1. Analysis of the current issues:
    a. How were they created?
    b. What impacts do they have on consumers and to what extent would any solution reduce these impacts?
    c. What are the key relationships affected amongst transporter, shippers/suppliers and consumers.
2. Short term transitional relief for consumers, including:
    a. options and impacts on UNC; and
    b. other contract remedies which may be appropriate for transitional relief.
3. Long term solutions, including:
    a. consideration of changes to the BSSOQ / ratchet regimes; and
    b. impacts on user pays services and charges.

3. Suggested Aims and Outputs

It is envisaged that this Review Group will produce a report recommending any necessary changes to the UNC and possible suggestions for the amendment of gas supply contracts. It is recommended that the Review Group completes its work within a 6 month period. However, short term transitional relief options should be considered and reported on by October 2009. 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).

In respect of any identified solutions, the Review Group should consider:

1. mitigation measures to prevent inappropriate behaviours;
2. the likely impact of any changes on consumers affected;
3. the likely impact of changes on other consumers charges (i.e. costs that are recovered from the remainder of the GDN consumer base); and
4. implications for capacity planning and associated investment decisions.

4. Scope and Deliverables

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

5. 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, including:

1. UNC;
2. Gas supply contracts; and
3. Licence and Legal obligations.

6. Composition of Review Group

Since the potential impacts of the Review Group are wide ranging, members would be welcome from Transporters, Shippers, Consumers, Ofgem and iGTs.

Bob Fletcher (Chair)	Joint Office of Gas Transporters
Helen Cuin (Secretary)	Joint Office of Gas Transporters
Alison Meldrum	Corus Group
Anne Jackson	Scottish and Southern Energy
Anna Taylor	Northern Gas Networks
Brian Durber	EON Energy
Chris Hill	RWE Npower

Chris Warner	National Grid Distribution
Dean Johnson	xoserve
David Watson	British Gas Trading
Eddie Profitt	Major Energy Users Council
Gareth Evans	Waters Wye Associates
Joanna Ferguson	Northern Gas Networks
Joel Martin	Scotia Gas Networks
Karron Baker	Ofgem
Lesley Ramsey	National Grid NTS
Mark Jones	Scottish and Southern Energy
Richard Street	Corona Energy
Shelley Rouse	Statoil (UK)
Simon Trivella	Wales & West Utilities
Stefan Leedham	EDF Energy
Steven Marland	National Grid Distribution

7. Timetable

It is proposed that a total period of 6 months be allowed to conclude this review. However, the Review Group should prioritise reporting any identified solutions for transitional relief by October 2009.

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 twice monthly.

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

8. Work Plan

The topics set out in this section will form the main items for discussion in three separate workplan groups as follows:

Meeting	Date	Topics to be Discussed
1	01/09/09	Introductions and agree Terms of Reference and workplan
2	16/09/09	Initial Analysis Transitional relief
3	TBA	Longer Term Solutions including a review of UNC options
4	TBA	Longer Term Solutions including a review of UNC options
5	TBA	Longer Term Solutions including a review of UNC options
6	TBA	Longer Term Solutions including a review of UNC options

7	TBA	Longer Term Solutions including a review of UNC options
8	TBA	Longer Term Solutions including a review of UNC options
9	TBA	Longer Term Solutions including a review of UNC options
10	TBA	Complete discussion and discuss draft Review Group Report and any Modification Proposal
11	TBA	Complete Review Group Report and any Modification Proposal

Appendix 2 – National Grid Distributions Letter to the Industry

Dear Colleague,

Review Group 0264 was convened in September 2009. The group is currently considering the possibility of introducing short term measures to address the potentially restrictive effects concerning the application of the 'Bottom Stop Supply Point Capacity' (BSSOQ) to Daily Metered (DM) Supply Meter Points (SMPs).

National Grid Distribution (NGD) has prepared a draft UNC Modification Proposal which is aimed at providing short term 'transitional relief' for consumers. This is available for viewing on the Joint Office of Gas Transporter's web site [location link]. However, we believe it is essential that information from Shippers is provided which reflects the likely demand for such a facility. Unless data of sufficient quality, which provides evidence of need, is forthcoming, we believe it would be difficult to demonstrate that the GT Licence 'relevant objectives' are facilitated. In these circumstances our view is that Ofgem would be unlikely to give direction to implement.

We would therefore be grateful if Shippers could provide the following information (applies to all Distribution Networks) in respect of each DM Supply Point likely to utilise the facility:

- the relevant Exit Zone or postcode,
- the current Registered Supply Point Capacity (SOQ),
- the current Bottom Stop Supply Point Capacity (BSSOQ), and
- the approximate SOQ and BSSOQ (should be the same) that would be requested within the appeal.

We understand that some consumers may have concerns in providing such information to the relevant Supplier/Shipper in light of their direct contractual relationship. In such circumstances we would encourage Shippers to advise consumers to notify the Joint Office directly in respect of the above information. In such circumstances we would also request that the relevant Shipper reassures the consumer that the information would be treated as confidential and would only be utilised to assist Ofgem in its decision making process in respect of the Proposal should this be raised

Responses from yourselves and/or consumers should be sent to the Joint Office (enquiries@gasgovernance.co.uk) by Friday 30th October.

Appendix 3 - Transitional Relief Option

- Transitional / short term relief options are limited and would require investigation of feasibility, costs and appropriateness
- Preferred option has been stated here
- Require minimal system change & utilise current processes
- Retrospective Rebate – where demand has been significantly below the prevailing BSSOQ for at least 12 consecutive months, issue a rebate
- Based on difference between BSSOQ and peak daily consumption from 12 month period
- And where Shipper has also retrospectively reduced their DMSOQ to the BSSOQ in last 12 months
- Validate changes to monitor inappropriate behaviour

Appendix 4 – Options Analysis

Option A - Change timing of annual BSSOQ Review and CRP

- Shorten BSSOQ period to run from Oct 1st to Mar 31st
- CRP changed to Apr 1st to Nov 1st (extended from 4 to 8 months)
    - Shortens 'Winter' period (removes April and May: estimate 35 sites impacted)
        - Allows quicker review and change of BSSOQ post winter period
        - Aligns charge rate impact of BSSOQ with other charge rate changes
- Discontinue manual review of BSSOQ calculation (minimal impact) and update revised BSSOQ effective from April 1st
- BSSOQ unchanged until next April (subject to appeals / ratchets)
- Permit BSSOQ appeals based on more accurate historic data
- Where demand is changing:
    - The Shipper could reduce their DMSOQ in April to new BSSOQ giving earlier reduction in charges / revenue by 6 months
    - FIRM – profiling as now, the Shipper could reduce DMSOQ in April and increase in October to accommodate ratchet incentives applying
    - INT – as no ratchet applies, behaviour will be similar to now (maintain April DMSOQ throughout)
- Option would shift when Shippers will reduce their DMSOQ (from Oct to Apr) but should not alter the limited ability to profile DMSOQ
- Costs / Timescales: £57k to £80k
- Feasible for April 2011

Option B – Two BSSOQ Updates per year using shorter BSSOQ period

- 1: Oct – Update BSSOQ based on UWP from Jan to May
- 2: Apr – Update BSSOQ based on UWP from Oct to Feb
- CRP would start in April, end in mid-winter
- Where demand is changing:
    - Shipper could reduce DMSOQ in Apr and Oct to new BSSOQ giving earlier reduction in charges / revenue by 6 months and every 6 months
    - BUT – could introduce additional within year fluctuations in BSSOQ as both reviews do not consider full winter period (misses some winter months)
- Costs / Timescales: £70k to £100k
- Not considered to be feasible due to missing winter period

Option C - Two BSSOQ Updates per year using a full set of winter consumption periods

- Oct – BSSOQ based on UWP from Oct previous year to May current year
- Apr – BSSOQ based on UWP from Mar previous year to Feb current year
- CRP would start in April, end in mid-winter
- UWP based on periods that contain all winter months
- Where demand is changing:
    - Shipper could reduce DMSOQ in Apr and Oct to new BSSOQ giving earlier reduction in charges / revenue by 6 months and every 6 months
    - Could introduce additional within year fluctuations in BSSOQ but only where actual peak demand is changing
- Costs / Timescales: £70k to £100k (as per Option B)
- Feasible for April 2011

Option D - Rolling BSSOQ Review

- Each month update BSSOQ based on peak consumption from the most recent period that contains all winter months (in last 12 months)
- CRP would continue all year (to enable benefit of BSSOQ change)
- Where demand is changing:
    - The BSSOQ would be reflective of most recent peak demand
    - Could introduce fluctuations in BSSOQ and DM SOQ throughout the year
    - Profiling could occur but would have to be undertaken within the month.
- Costs / Timescales; As Option C (£70k to £100k), anticipated to be more expensive due to additional system changes & risks due to update frequency
- Possible long term Option

Option – Radical Option

- Radical Options - with more significant issues requiring investigation:
- Re-define BSSOQ as average winter day consumption of previous gas year
- Re-define the BSSOQ as AQ / 365
    - Option 1 & 2 allow greater reduction / flexibility in SOQ due to a lower BSSOQ
- Discontinue or redefine the BSSOQ before MOD90 is implemented
    - Is BSSOQ value required?
    - Appropriate mechanisms need to be in place to maintain integrity of DMSOQ

Appendix 5 – Draft Modification Proposal for Longer Term Solution

CODE MODIFICATION PROPOSAL No xxxx

Removal of Bottom Stop SOQ and Changes to the Application of Supply Point Ratchets

Version x.x

Date: 01/12/2009

Proposed Implementation Date: 01 October 2011

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Review Group 0264 "Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points" is currently discussing 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 has considered a number of options for developing the LDZ exit capacity regime in anticipation of Interruption Reform commencing 1st October 2011. [The Group believes that the arrangements described below represent a pragmatic approach].

Bottom Stop SOQ – Charging at Interruptible Supply Points

The Bottom Stop Supply Point Capacity (or 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 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

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

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.

Supply Point Ratchets

A Supply Point Ratchet occurs where the User Daily Quantity Output (UDQO) exceeds the Registered Capacity on any Day within the period of October to May inclusive. In such circumstances the operation of the Supply Point Ratchet automatically increases the Registered Capacity to the UDQO value with effect from the following Day. In addition, the 'ratchet amount' (UDQO-Registered Capacity) is subject to Capacity charges levied

at twice 'normal' rate. This process is described within UNC TPD section B4.7.

The application of Supply Point Ratchets to DM Firm Supply Points only (pending the removal of Interruptible Supply Points with effect from 1 October 2011) is detailed within UNC Transition Document Part IIC 6.1.4

To encourage effective management of Registered Capacity, it is proposed that Supply Point Ratchets are applicable throughout the year. NGD believes that this approach would promote effective management of Registered Capacity by Users.

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.

Supply Point Ratchets

2.1 With effect from the date specified in section 1.1, all Supply Points would be subject to the Supply Point Ratchet provisions on every day within the Gas Year.

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

N/A

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 developed within the remit of Review Group 0264 and the Review Group believes it is sufficiently developed to enable it to proceed to consultation].

2 User Pays

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

User Pays. The proposer believes that the changes proposed would benefit, and have impact upon, a specific subset of the Supply Point population i.e. DM Supply Points. To this extent, the Proposer believes it is appropriate to target cost recovery from such impacted parties.

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

Recognising the benefits to Transporters, particularly in respect of potential for improved Capacity management, it is proposed that, in respect of implementation costs, Transporters contribute 50% and Users 50%. It is suggested that the User apportionment is split according to the market share of DM Supply Points as at the date of implementation (if so directed).

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

Such charges have not been assessed as yet.

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

Not applicable

3 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

The Proposer believes that, if implemented, this UNC Modification Proposal would further the GT Licence 'code relevant objective' of facilitating the efficient and economic operation by the licensee of its pipe-line system. Specifically, the application of Supply Point Ratchet provisions throughout the year would ensure that the Registered Capacity recorded in the Supply Point Register outside the period of October to May reflected any 'spike' in consumption (above the prevailing registered Capacity) experienced in this period.

The Proposer also 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.

The Proposer also 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.

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

No such implication has been identified.

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

a) The implications for operation of the System:

Application of Supply Point Ratchets throughout the year would ensure that Registered Capacity is reflective of peak consumption at all times.

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

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

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:

Users Pays, as described in section 2 of this report.

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

No such consequence has been identified.

6 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)

No such requirement has been identified.

7 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 to remove functionality and validation associated with Bottom Stop SOQ and additionally to apply Supply Point Ratchet functionality throughout the year.

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

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

Users at DM Supply Points would need to ensure effective Capacity management throughout the year. Additionally, Registered Capacity would no longer be constrained by the Bottom Stop SOQ.

b) The development and capital cost and operating cost implications

To be advised by 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

Application of Supply Point Ratchets throughout the year could increase Users' contractual risk, specifically in the period June to September inclusive. 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 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)

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.

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 the Transporters

No such consequence has been identified.

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

Advantages

No additional advantages have been identified.

Disadvantages

No additional disadvantages have been identified.

12 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 such representations have been received.

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

No such representations have been received.

14 Any other matter the Proposer considers needs to be addressed

The proposer believes that no additional matters require consideration.

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

It is suggested that this Proposal be implemented on 1st October 2011 to coincide with the removal of interruptible Supply Points.

16 Comments on Suggested Text

Not applicable

17 Suggested Text

Not applicable

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B4.7, G5.2

Proposer's Representative

Chris Warner (National Grid Distribution)

Proposer

Chris Warner (National Grid Distribution)

