

Stage 04: Final Modification Report

0367:

Interruptible to Firm – Supply Point Transition

What stage is this document in the process?

- 01 Proposal
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

The Proposal sets out a series of Supply Point Administration (SPA) steps that Users will be required to carry out to ensure all Interruptible Supply Points are recorded on the Supply Point Register as 'Firm' with effect from 1st October 2011. The Proposal also permits Transporters to take certain actions where those steps are not carried out by the User.



Panel decided this self-governance modification should be implemented.



High Impact:
None



Medium Impact:
None



Low Impact:
SPA transactions for c.950 interruptible supply points

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About this document:

This document is a Final Modification Report, presented to the Panel on 16 June 2011.



3 **Any questions?**

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1 Summary

Is this a Self-Governance Modification

This modification is a self-governance Modification Proposal.

Why Change?

Modification 0367 was raised to facilitate a known forthcoming event in order to most efficiently manage that event.

Solution

It is proposed that for a period of time between 8th September & 19th October, certain SPA processes for the affected Supply Points would be suspended while the affected Supply Points are systematically converted from Interruptible status to Firm status. It is our preference that Users take the lead in this process, although where a User has not taken the appropriate action, this Proposal establishes the option for the Transporter to take action and make the Supply Point Reconfirmation on the Users behalf.

Impacts & Costs

It is anticipated that costs will be incurred by the Transporters' agent in both developing and testing the functionality to register Supply Points on a User's behalf. It is also anticipated that cost would be incurred where the default Supply Point Confirmation route is used.

However, given that this functionality is required to implement interruption reform, it is proposed that no costs are recharged to Users.

For the avoidance of doubt: This is not a "User Pays" Proposal.

Implementation

As the modification is following Self Governance procedures, implementation can be 16 business days following a decision to implement by the Modification Panel.

The Case for Change

As stated in the Proposal, implementation would not create a permanent change to the UNC; the Proposal simply seeks to place a limited number of obligations on Users to carry out certain SPA activities for the Interruptible Supply Points in their portfolio at the requisite time. The case for implementation is that we believe this is the most efficient way of amending the Supply Point Register; it is not a case for permanent change.



"Mod 90" or "interruption reform"

"Mod 90" introduced new arrangements that removed the "on-demand" interruptible service from the UNC. With effect from 1 Oct 2011, where a DNO has a requirement for interruption, this will be sourced through an auction process

2 Why Change?

Modification 0367 was raised to ensure that the status of the affected Supply Points recorded on the Supply Point Register aligns with both their contractual and operational statuses, with effect from 1st October 2011.

As part of Mod 90, it was envisaged that these affected Supply Points would need to transition to firm; the following rules can be found in Transition Document (Part IIC).

Existing transition rules:

4.1.1 for the purposes of paragraphs 4, 5, 6 and 7 of this Part IIC:

(a) the "**interruption transition date**" is 1 October 2011;

4.2.1 with effect from the interruption transition date:

(a) a Supply Point which on the Day preceding the interruption transition date was Interruptible in accordance with the rules set out in paragraph 5 shall cease to be Interruptible

Modification 0367 has been raised to give effect to and facilitate the envisaged transition, while also providing a soft landing. This change is event related and the rules introduced will be transitional in nature; implementation will have no enduring effect on the operation of the Uniform Network Code.

3 Solution

It is proposed that for a period of time between 8th September & 19th October, certain SPA processes for the affected Supply Points would be suspended while the affected Supply Points are systematically converted from Interruptible status to Firm status. It is our preference that Users take the lead in this process, although where a User has not taken the appropriate action, this Proposal establishes the option for the Transporter to take action and make the Supply Point Reconfirmation on the Users behalf.

All dates are specific to calendar year 2011

Re-designation as Firm

As currently stated in the UNC Transition Document, with effect from 1st October, on-demand Interruptible Supply Points connected to an LDZ will not be permitted. For the avoidance of doubt, the existing rules pertaining to a User's right to change the status of a Supply Point on the Eligible Status Change Date, shall be dis-applied

With effect from 1st October all such Interruptible Supply Points will be treated as Firm and charged at Firm transportation rates for all Transportation Charges, (although Transporters will have the ability to contract for interruption with shippers at Firm Supply Points on bilateral terms).

In order to facilitate the re-designation of the affected Supply Points, for each of its Interruptible Supply Points, the User shall nominate and reconfirm the Supply Point as Firm, (DM or NDM as permitted under the Code).

Where the User fails to make the necessary Supply Point Confirmation within the stipulated timeframe, the Transporter will take steps to reconfirm the Supply Point on the User's behalf.

Users and Transporters acknowledge that for a period commencing 8th September and ending 19th October inclusive, for the affected Supply Points, it will be necessary to restrict Supply Point Registration Dates in order to ensure the smooth conversion from of the entire Interruptible Supply Point population to Firm. (For information, the affected Supply Points number approximately 1,150).

Shipper Driven Process

No later than end of 7th September, where in the opinion of the User it reasonably expects that it will be the User at the supply point on 1st October, it shall nominate and reconfirm each Interruptible Supply Point as Firm with a Proposed Supply Point Registration Date of 1 October.

With the exception of 1st October, a reconfirmation for an affected Supply Point requested to take effect on another date during the period 8th September to 19th October will be rejected.

Transporter Driven ("Back-stop") Process

Where there is no Supply Point Confirmation for the relevant Supply Point in the Supply Point Register on 8th September, the Transporter will create a Supply Point Offer, and submit a Supply Point Reconfirmation on behalf of the incumbent User, with a Proposed Supply Point Registration Date of 1st October.

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The Supply Point Offer so created will specify the values for Supply Point Capacity and Supply Point Offtake Rate recorded in the Supply Point Register as of 8th September.

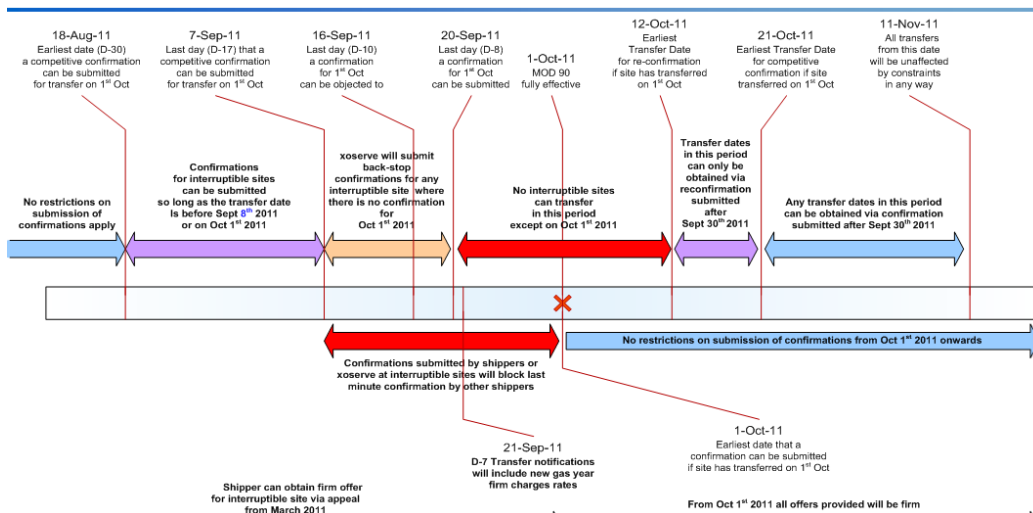
Supplementary Provisions

With effect from the date of implementation of this proposal, no Firm Supply Point will be permitted to change its status to Interruptible.

Where a User, (the "incoming User") warrants that a supply contract commenced on a date falling within the period 8th September to 19th October inclusive, and had these arrangements not been in effect would have initiated a Supply Point Registration for Supply Point Registration Date aligned to the commencement of the supply contract, the incoming User shall register the Supply Point as soon as is reasonably practicable after 19th October. Where this is the case, the incoming User shall notify the Transporters' agent in writing that it believes that an energy reconciliation and adjustment of Transportation Charges between the incoming and exiting Users is due; referencing the date that the Supply Point Registration would have taken place so as to align with the supply agreement.

Below is the proposed time line that will operate during the transition period (it is not envisaged that this will be drafted into legal text, it is simply provided for operational guidance):

Supply Type Initialisation Proposed Solution - Timeline



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4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objective f.**

Proposer's view of the benefits of 0367 against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipeline system.	No
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipeline system of one or more other relevant gas transporters.	No
c) Efficient discharge of the licensee's obligations.	No
d) 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.	No
e) 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.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

As part of the implementation of Modification 0090, with effect from 1st October 2011, it is the requirement of the UNC that all Supply Points are charged as Firm. It is believed that the most efficient and comprehensive way of ensuring that existing Interruptible Supply Points transition to Firm is if relevant Users undertake Supply Point Reconfirmation to take effect from the relevant date. Hence, relevant objective (f) would be facilitated by implementation.

Suspending the confirmation window provides an opportunity for Transporters to undertake this obligation efficiently where Shippers haven't reconfirmed previously.

There is a potential impact on competition due to the two-week suspension, which does not further relevant objective (d). However, this is not expected to be material as there are 950 sites at most and they are unlikely to be switching during the suspension period. It is expected that of the 950 sites, Shippers will reconfirm most prior to the suspension period.

5 Impacts and Costs

Costs

It is anticipated that costs will be incurred by the Transporters' agent in both developing and testing the functionality to register Supply Points on a shipper's behalf. It is also anticipated that cost would be incurred where the default Supply Point Confirmation route is used.

However, given that this functionality is required to implement interruption reform, it is proposed that no costs are recharged to Users.

For the avoidance of doubt: This is not a "User Pays" Proposal.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> New functionality will need to be developed to give Transporters the capability to register Supply Points on behalf of Users where an appropriate User registration is not in place. New functionality will need to be developed to restrict confirmation effective dates for the affected supply points
Operational Processes	<ul style="list-style-type: none"> This Proposal will introduce some new operational process to facilitate the conversion from Interruptible to Firm. These processes will be temporary in nature.
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Users will be required to re-register their Interruptible Supply Points as Firm

Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> As the Proposal utilises existing processes, it is anticipated that this event will have minimal effect on Users' systems
Contractual risks	<ul style="list-style-type: none"> There is a risk the SPA process restrictions will prevent the incoming User from aligning the Supply Point Registration Date with its supply contract start date. This risk will be mitigated by a retrospective alignment of Transportation charges and energy reconciliation to the supply contract start date upon request.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None envisaged

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> None
Recovery of costs	<ul style="list-style-type: none"> None
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> None

Impact on Code	
Code section	Potential impact

Impact on Code	
Transition Document IIC	Temporary rules would be required for the SPA process as it applies to the current population of Interruptible Supply Points

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None
Transportation Pricing Methodology Statement	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None

Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

6 Implementation

As the modification is following Self Governance procedures, implementation can be 16 business days following a decision to implement by the Modification Panel.

7 The Case for Change

In addition to that identified the above, the Workgroup has identified the following:

Advantages

It is believed that by using tried and tested standard industry process, and by minimising the period of time that SPA restrictions would need to apply, the conversion of the Interruptible Supply Point population to Firm (either DM or NDM as permitted under TPD Section 1.5), this proposal provides a set of arrangements that cause the minimum disruption to the normal running of the UNC.

The Proposal also permits Transporters to take necessary steps where the User has not done so.

Disadvantages

The conversion period covers a busy time in the Supply Point calendar but it is anticipated that these operational difficulties can be effectively mitigated. Following concerns expressed at the Distribution Workstream in October 2010, an operational workshop was held with User representatives familiar with the SPA processes. Whilst the view was that it would have been preferable if the conversion could have been scheduled for a quieter time of the year there was no over-riding reason why a mass switch on 1st October date could not be facilitated.

It is recognised that where a supply point transfer between shippers cannot be aligned with the underlying supply contract, there is a potential for the suppliers to be exposed to some gas cost risk, that is, the supplier's gas purchase cost versus the SAP value used in the reconciliation process. In mitigation, with the sites being DM, transfer reads should be readily available to determine the reconciliation value.

8 Legal Text

Transition Document Part IIC

Add new paragraph 4.4 to read as follows:

"4.4 Interruptible to Firm - Supply Point Transition

- 4.4.1 By no earlier than 18 August 2011 and by no later than 7 September 2011, a User of an Interruptible Supply Point by submitting a Supply Point Reconfirmation shall apply to change its status to a Firm Supply Point on 1 October 2011.
- 4.4.2 A User of an Interruptible Supply Point may not apply to change its status to a Firm Supply Point with a Supply Point Registration Date on a date between 8 September and 19 October 2011 (inclusive) other than on 1 October 2011.
- 4.4.3 Where any application by a User of an Interruptible Supply Point to change its status to a Firm Supply Point does not comply with paragraph 4.4.2 it shall be rejected by the Transporter.
- 4.4.4 Where any User of an Interruptible Supply Point does not apply to change its status to a Firm Supply Point in accordance with paragraph 4.4.1, or where its application is rejected in accordance with paragraph 4.4.3, the User shall be deemed have granted the Transporter the authority to do so on 7 September and the Transporter, by creating a Supply Point Offer and submitting a Supply Point Reconfirmation, shall change the status of an Interruptible Supply Point to a Firm Supply Point on 1 October 2011.
- 4.4.5 Where the Transporter creates a Supply Point Offer and submits a Supply Point Reconfirmation pursuant to paragraph 4.4.4 it will include within it all existing details relating to the existing Supply Point to generate the Supply Point Offer and Supply Point Reconfirmation.
- 4.4.6 Where a Proposing User that is not an Existing Registered User submits a Supply Point Confirmation in accordance with TPD Section G2.5.3, with a Proposed Supply Point Registration Date occurring between 8 September and 19 October 2011 (inclusive), in contravention of paragraph 4.4.2, then notwithstanding rejection of such submission in accordance with paragraph 4.4.3, the Proposing User and the Existing Registered User shall each:

- (a) notify the Transporter that it believes that an energy reconciliation and adjustment of Transportation Charges is due between the Proposing User and the Existing Registered User, referencing the Proposed Supply Point Registration Date stated above;
- (b) as soon as reasonably practicable after 19 October 2011, the Proposing User shall submit a Supply Point Confirmation with a new Proposed Supply Point Registration Date.

4.4.7 In the event of a conflict between the provisions of paragraph 5 and this paragraph 4.4, this paragraph 4.4 shall apply.

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Supports
Corona Energy	Supports
Gazprom Marketing & Trading Retail	Supports
National Grid Distribution	Supports
Northern Gas Networks	Supports
npower	Supports
Scotia Gas Networks	Supports
Shell Gas Direct	Supports
Wales & West Utilities	Supports

Nine representations were received and implementation was unanimously supported.

Summary Comments

British Gas (BGT) notes that implementation of this modification will allow Gas Transporters to remain compliant with the forthcoming UNC requirement for all interruptible sites to be re-confirmed as Firm. To this end, BGT agrees with the proposer that the Gas Transporters should be able to intervene and complete the process on behalf of Shippers who are unable to complete the action themselves, thereby ensuring that the Gas Transporters are not in breach of their UNC obligations. Whilst some parties have suggested that the proposed 'back-stop' process would leave them exposed to some industry charges, BGT believe that such exposure is entirely in the Shipper's ability to prevent, either through management of the industry held data on affected sites or by ensuring any affected sites are reconfirmed before the deadline. Finally, BGT notes that the risk faced by Shippers of incurring these charges is no more than they face during the normal change of supply process.

Corona Energy noted that whilst there remain deficiencies in the interruption regime that will apply from October 2011, they believe that Ofgem is seeking to address many of these issues in their (Ofgem's) current Significant Code Review (SCR) process.

Gazprom Marketing & Trading Retail suggest that whilst Users will bear no direct costs, they will be impacted by the proposed solution which prohibits certain Supply Point Administration (SPA) processes between 08 September and 19 October 2011.

National Grid Distribution believe that implementation provides the most efficient process for establishing firm transportation charges for affected sites. Furthermore, they believe that using tried and trusted SPA processes to implement a requirement of

DN Interruption Reform (UNC Modification Proposal 0090) provides for efficient implementation of the UNC (Relevant Objective (f)).

Northern Gas Networks believes that the additional 'back-stop' processes for Transporters to manually implement a change where such steps are not carried out by a User ensures that all Interruptible Supply Points will be correctly recorded by 01 October 2011.

RWE Npower agrees that implementation of the modification will ensure efficient implementation of the UNC by putting in place an appropriate framework to allow Transporters to reconfirm sites as Firm where a Shipper has not completed prior to the implementation of the Interruption Reform – noting that failing to do so may have a detrimental impact upon the industry.

Scotia Gas Networks notes that implementation of the modification will ensure that the conversion between interruptible and firm sites is carried out in a timely manner whilst capturing any sites that are not reconfirmed by Users.

Shell Gas Direct notes that whilst suspension of the confirmation window will impact competition during this period (relevant objective D), it believes that there is an appropriate route for resolving any change of supplier issues that may arise between Shippers.

Wales & West Utilities Ltd, (in line with several other respondents) believes that the additional 'back-stop' service that will be carried out by the Transporter Agency, ensures that where a Shipper is unable to complete the transition for any Interruptible Supply Point, this will not prevent the transition from taking place.

10 Panel Discussions

The Chair summarised that, with effect from 1st October 2011, the UNC provides for all Supply Points to be Firm and so charged on a consistent basis. To support transition of the affected Supply Points from Interruptible to Firm status, Modification 0367 proposes that certain SPA processes for the affected Supply Points would be suspended between 08 September and 19 October. If Shippers fail to complete the steps necessary to effect the transition, the modification clarifies the steps to be taken on their behalf during this period. In this way, an orderly transition is assured, with a window of opportunity for Shippers to complete their processes as well as a backstop provision to ensure the transition is completed for all relevant Supply Points.

By providing for an orderly transition and ensuring the status of all sites is changed as appropriate, Panel Members recognised that implementation would be expected to facilitate efficiency in the implementation and administration of the Code. Members also noted that the suspension of SPA activities would be expected to be detrimental to the facilitation of competition. However, since no more than 950 sites are potentially impacted, and the suspension is only for two weeks, it was not considered that this effect would be material.

With 11 votes cast in favour and none against, Panel Members unanimously determined that Self-Governance Modification 0367 should be implemented.

The benefits against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or	Negative

<p>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.</p>	
<p>e) 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.</p>	<p>None</p>
<p>f) Promotion of efficiency in the implementation and administration of the Code</p>	<p>Positive</p>

11 Recommendations

Panel Recommendation

- Panel determined that Self Governance Modification 0367 be implemented