

Stage 01: Modification

0445:

Amendment to the arrangements for Daily Metered Supply Point Capacity.

At what stage is this document in the process?

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

This is a proposal to remove the requirement for a Bottom Stop Supply Point Capacity and the corresponding restrictions, of Daily Metered (DM) sites connected to a Distribution Network.

The Proposer recommends that this modification should be:



- assessed by the workgroup



High Impact:
Some categories of consumer



Medium Impact:
Some categories of consumer



Low Impact:
Shippers and Transporters

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About this document:

This modification will be presented by the proposer to the Workgroup on 25 July 2013.

	
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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this modification should not follow Self Governance procedures.

Why Change?

A Registered User's Supply Point Capacity at a Daily Metered Supply Point, which drives the charging levied by the Transporter, is not permitted to be less than the Bottom Stop Supply Point Capacity. This is set by historic reference to peak use of gas at a Supply Point Component and whilst it can be amended annually it will always be pegged to the previous winters' peak day consumption. This could have significant financial implications for customers' future charges if they are unable to book capacity commensurate with their anticipated future demand. This may not be appropriate in an economic climate where businesses are obliged to adapt and change at speed, to remain viable. For consumers that have constant year on year use, this will have little effect.

Over the last three years this situation has been addressed by the implementation of two Modifications (0275 & 0405) which have allowed amendments to the User's Supply Point Capacity holdings in certain circumstances. This is no longer possible under the current terms of the Uniform Network Code (UNC) because both of these Modifications were implemented on a time limited basis.

Solution

It is proposed to remove all references in the UNC to the Bottom Stop Supply Point Capacity, thereby removing all the associated restrictions. If implemented the proposal would allow DM consumers to reset their capacity bookings on an annual basis, irrespective of the previous gas year's consumption, although a rule would be proposed to ensure within year profiling is not permitted.

Relevant Objectives

Implementation of this Modification Proposal would facilitate the following Relevant Objectives.

- a) Efficient and economic operation of the pipe-line system.
- 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.

Implementation

The implementation date could be any date following direction, although it is preferable that the date would be prior to 1st October 2013.

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2 Why Change?

Current regime:

Whilst the Uniform Network Code (UNC) allows Users to cease registration at a Supply Point, via the Isolation and Withdrawal process, the restrictions on capacity reduction, limit the ability to reflect reduced demand in the capacity booking. This is because a Registered User's Supply Point Capacity at a DM Supply Point, which drives Transporter the charging, is not permitted to be less than the Bottom Stop Supply Point Capacity (Bottom Stop) and can only be reduced during a Capacity Reduction Period (October to January).

The Bottom Stop is fixed based upon the peak day consumption (at the Supply Point Component) within a winter period (October to May inclusive) and this value is then effective from 1st October at the start of the next winter period. As a consequence, the current process may result in the peak winter's day consumption influencing a consumer's ability to book a demand reflective Supply Point Capacity (commonly know as the SOQ) for up to two years.

The History of the Bottom Stop:

Historically the registered capacity for a Supply Point not only dictated the capacity charge but also the unit rate for the commodity charge (higher booked capacity = lower unit rate). If this approach to commodity charging had been the same for Interruptible Supply Points, it would have provided an incentive to overstate the prospective capacity requirements (because capacity charges were not payable by Interruptibles). For this reason the unit commodity rate for Interruptible Supply Points was based on the Bottom Stop. The use of the Bottom Stop discouraged Interruptible Supply points from booking insufficient capacity because they were not subject to ratchet charges, which is the tool to ensure that Firm Supply Points book sufficient capacity. Following the implementation of Mod 90, all DM Supply Points are now subject to ratchets and a consistent charging regime. Therefore, the Bottom Stop for charging rate derivation purposes is now redundant.

A further use of Bottom Stop has been 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 (except during the Capacity Reduction Period). This prevents aggregation or disaggregation of Supply Points being used as a means of avoiding the restrictions.

The current economic climate continues to be challenging and may require some customers to respond by changing their patterns of energy usage. In some cases, where businesses have closed and new ones have emerged, a change in energy consumption at a site may be inevitable. Given this volatility National Grid Distribution (NGD) believes that there needs to be a degree of flexibility for customers. NGD believes that the rules surrounding the Bottom Stop are now outmoded and should be reviewed.

If this Modification Proposal were not implemented Daily Metered customers would continue to have limited ability under the UNC to amend their Supply Point Capacity because of the Bottom Stop constraints. Such a constraint may not allow customers to obtain a suitable Capacity reduction that reflects their true requirements going forward and this would have a consequential impact on the charges levied upon them and their viability as a business going forward. It is also possible that if a User is not be able to reduce their capacity booking to reflect their intended use of the system this could effectively sterilise capacity for twelve months.

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This Proposal follows the implementation of two earlier Modifications (0275 & 0405). These were implemented on a transitional basis because there had been an expectation that there would be a change in the economic conditions and/or an enduring solution to this issue would be brought forward. There has neither been a change in the economic outlook nor has an enduring solution been brought forward. This Proposal therefore seeks to provide an enduring solution.

Additionally we are mindful that there are proposal to introduce daily settlement products for supply points with Annual Quantities (AQ) less than the current DM mandatory threshold. Those sites were previously non daily metered (NDM), and would have had their supply point capacity reset every year as part of the AQ review process.

We believe that there is a case for allowing all supply points to reset their Supply Point Capacity on an annual basis rather than annually for NDM and potentially biennially for DMs, thereby introducing a consistent approach to all Supply Points. This Proposal, if implemented, would allow a DM user to amend their capacity booking to reflect their anticipated usage for the following year. It would provide a level of user commitment commensurate with NDM users but there is an additional level of protection provided by the ratchet regime which encourages appropriate capacity booking.

3 Solution

With effect from the date of implementation, Transporters would no longer calculate and record the Bottom Stop Supply Point Capacity within the Supply Point Register.

With effect from the date of implementation, 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 would no longer exist).

With effect from the date of implementation, 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.

With effect from the date of implementation, 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, regardless of how the Supply Meters Points are reconfigured.

Within the Capacity Reduction Window in any Gas Year, the shipper would be allowed to set its DM Supply Point Capacity to a value of its choice without reference to the maximum daily consumption in previous the Gas Year.

The above rule would be qualified to prevent within Gas Year profiling by collaring the new Supply Point Capacity booking to a value not less than the maximum daily consumption recorded in the Winter Period concurrent to the Capacity Reduction Window in which the reduction is to take effect.

Ideally, the capacity booked for a 12 month period would be constant value and would be sufficient to meet the consumer's peak day on any day during the Gas Year.

However, the relaxation of the capacity booking regime may encourage Users to book

a lower amount at the start of the Gas Year and increase that amount to account for higher daily consumptions when they occur in the colder winter months. Booking capacity in this way is sometimes referred to as "capacity profiling" and we are proposing an additional measure to discourage Users from behaving in this way.

It is proposed that a Capacity Reconciliation Charge ("CRC") be calculated to ensure that, as far as is reasonably practical, a User makes no financial gain by decreasing, and subsequently increasing, the capacity booking at a Supply Point within the Gas Year. A CRC would be levied each time a User requests, (and is granted), a voluntary increase to its capacity booking, where in the same Gas Year that User, or any other User, has previously effected a decrease.

The CRC would be paid by the Requesting User and would be calculated using the formula below:

$$\text{CRC} = (C_{(\text{new})} - C_{(\text{prev})}) * D * F$$

Where:

$C_{(\text{new})}$ is the combined daily charge for LDZ Capacity and Capacity Variable Component of the Customer Charge, as calculated based on the new capacity level booked; and

$C_{(\text{prev})}$ is the combined daily charge for LDZ Capacity and Capacity Variable Component of the Customer Charge, as calculated based on the prevailing level of capacity the day before the new booking takes effect; and

D is the number of days between the day of decrease that took the booking below the level now being booked and the day of voluntary increase; and

F is an "incentive Factor" and shall be equal to 1 (one).

It is proposed that the incentive Factor, F, is set at 1 until we can see if Users' capacity booking behaviours still seek to take advantage of the opportunity to profile. Should this modification be implemented, and we see behaviours where users do seek to profile, the Factor could be increased to a value greater than 1 to ensure that a financial disbenefit accrued from such behaviour.

In the unlikely event that the $(C_{(\text{new})} - C_{(\text{prev})})$ is not the same value for every day, then a simple pro-rating of the value would be calculated for the days in question. This could occur if there were successive decreases at the supply point and the voluntary increase overlaps one of the decrease steps.

For the avoidance of doubt, no CRC would be payable where no decrease was effected in the gas year, and no CRC would be payable in respect of capacity booked in excess of the amount booked immediately prior to the first decrease.

Classification of the modification as User Pays, or not, and the justification for such classification
This is not a User pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view
N/a
Proposed charge(s) for application of User Pays charges to Shippers
N/a
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve
N/a

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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 (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
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.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

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g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None
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a) *Efficient and economic operation of the pipe-line system.*

Under the existing UNC arrangements a customer may be left with no option other than to vacate the site (because the relevant charges they would receive do not in anyway match their use of the system). This may leave unused capacity. If the customer is able to effectively reduce their Supply Point Capacity to match intended use this may help to avoid the sterilisation of capacity.

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.*

Amending the UNC to reflect the real needs of customers would allow the market as a whole to operate more effectively and competitively. Whilst this may result in an under-utilisation of capacity (the cost associated with that being recovered from all other customers), it is not anticipated that these would be as significant. In any event if the customer opts to leave the market because a capacity reduction was not available the effect would be much greater.

5 Implementation

The implementation date could be any date following direction.

- Development costs and implementation costs and timetable for this Modification Proposal have not yet been established.

6 Legal Text

Legal text to follow.

7 Recommendation

The Proposer invites the Workgroup to:

- Determine that this modification should proceed to consultation

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