

Modification proposal:	<b>Uniform Network Code (UNC) 458: Seasonal LDZ System Capacity Rights</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 June 2014	Implementation Date:	As soon as possible To be confirmed by the Joint Office

## Background to the modification proposal

Under current UNC arrangements a Gas Distribution Network (GDN) can only offer LDZ (Local Distribution Zone) capacity on a firm supply basis for the full 12 months of the gas year. The GDN is required to ensure that the network is able to meet 1 in 20 year winter conditions.

There may be circumstances where an end user requires a new connection or an existing customer requires additional capacity but may only require the entire supply point capacity for a seasonal (off-peak) period. As the GDN is required to design the system to meet 1 in 20 winter conditions, currently there may be a requirement to reinforce the network to meet this increased demand. However, the end user may not require capacity during the winter (peak conditions) and the need for reinforcement could be avoided. There may also be existing large supply points which only access their capacity during the summer period who may also benefit from change in the current arrangements.

## The modification proposal

This modification seeks to change the UNC arrangements to give new and existing large supply points the option of having seasonal capacity rights during the summer (off-peak) period.

The modification would introduce a new category of supply point, ie a 'Seasonal Large Supply Point' (SLSP). An SLSP would be permitted to access its registered supply point capacity during a Restricted Capacity Period (RCP). The RCP would be agreed between the GDN, the Shipper and the customer and is proposed to fall between 1 April and 30 September each year. An SLSP must be a Daily Metered (DM) supply point with a proposed or existing Annual Quantity equal to or greater than 5,860,000kWh.

For an SLSP, the GDN would only charge the LDZ Capacity Charge for the agreed RCP. All other GDN transportation charges including the LDZ Customer Charge, LDZ Commodity Charge and the National Transmission System (NTS) Exit Capacity Charge would be applied to the SLSP for the full 12 months as per current arrangements. All other arrangements that apply to DM supply points would apply to an SLSP.

If the SLSP were to access capacity outside the RCP, the Shipper would be charged the Annual Rate of the LDZ Capacity Charge multiplied by the volume of gas off taken for each day outside the RCP.

## UNC Panel<sup>3</sup> recommendation

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

At the UNC Modification Panel meeting held on 15 May 2014, the Panel unanimously voted in favour of implementing UNC458.

### **The Authority's decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 May 2014. We have considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>4</sup>. We have concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>5</sup>
2. directing that the modification to be made is consistent with the Authority's principal objective and statutory duties<sup>6</sup>.

### **Reasons for the Authority's decision**

We consider that this modification has positive impacts on UNC relevant objectives a), b) and c). We do not think this modification has any impact on the other relevant objectives.

#### ***Relevant objective a) the efficient and economic operation of the pipe-line system***

We consider that this modification would have a positive impact on this objective as it would enable GDNs to avoid expenditure on reinforcement that is not required by a customer as they would only be using off-peak capacity.

Providing large customers with an option to only use off-peak capacity, and avoid the additional cost of also making peak capacity available for this customer, enables more efficient use of existing capacity. Thereby avoiding inefficient investment

#### ***Relevant objective b) the co-ordinated, efficient and economic operation of (i) the combined pipeline system, and/or (ii) the pipe-line system of one or more relevant gas transporters***

Capacity bookings made with National Grid Gas Transmission (NGGT) that reflect a GDN's total capacity requirement on the National Transmission System (NTS) are booked on an annual basis and reflect the peak requirement on the GDN's network. Bookings are made on a flat volume value across the year. Therefore, the off-peak/summer bookings are in excess of the actual requirement on the GDN's network. This modification would allow a GDN to make more efficient use of excess off-peak NTS exit capacity bookings without the requirement to increase peak bookings.

#### ***Relevant objective c) the efficient discharge of the Licensee's obligations***

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<sup>3</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>4</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk).

<sup>5</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

<sup>6</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

Standard Special Condition A9: Pipe-line System Security Standards of the Gas Transporter Licence requires gas transporters to meet 1 in 20 year winter capacity provision in the most efficient and economic way. This modification allows GDNs to better achieve this requirement by offering large customers off-peak (summer) capacity, therefore avoiding the costs of potentially unnecessary investment and lowering the cost of meeting the 1 in 20 winter capacity requirement.

### **Other issues**

There were eight responses to the modification consultation. Seven respondents supported the proposal, believing that it could prevent the need for unnecessary reinforcement. One respondent offered qualified support and expressed concern that there were no provisions within the proposal to restrict the ability of the customer with an SLSP to offtake gas outside the agreed period. There is only a financial penalty which the customer may only discover once it has been imposed. We consider that it is the responsibility of shippers to ensure that their customers who request an SLSP are fully aware of the financial implications if they were to offtake gas outside the agreed period (i.e. the RCP). We also consider that it remains the GDNs responsibility to meet 1 in 20 winter capacity as required under their licence.

### **Decision notice**

**In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC458: Seasonal LDZ Capacity Rights be made.**

**Dora Guzeleva**

**Head of Networks Policy, Local Grids**

Signed on behalf of the Authority and authorised for that purpose