

Stage 02: Workgroup Report

0374:

Interruptible to Firm – Supply Point Transition

What stage is this document in the process?



The Proposal sets out a “soft landing” for those sites being forced to transfer from Interruptible to “Firm” Status with effect from 1st October 2011.



The Workgroup recommends that Modification 0374 is sufficiently developed to proceed to the Consultation Phase



High Impact:
None



Medium Impact:
None



Low Impact:
SPA transactions for c.1,150 interruptible supply points

0374

Workgroup Report

06 July 2011

Version 1

Page 1 of 14

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Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Legal Text
- 9 Recommendation

About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 21 July 2011, on whether Modification 0374 is sufficiently developed to proceed to the Consultation Phase and to submit any further recommendations in respect of the definition and assessment of this modification.



3 **Any questions?**

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0374
Workgroup Report

06 July 2011

Version 1

Page 2 of 14

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1 Summary

Is this a Self-Governance Modification

The Modification Panel did not determine that this modification should follow the self-governance route.

Why Change?

This modification has been raised because customers will be exposed to ratchets without an appropriate period to verify peak load requirements and make appropriate amendments without being subject to penal charges. This approach is also consistent with the approach taken when introducing the new DME product (Modification 0224), which allowed an appropriate period to verify peak load before becoming subject to the ratchet charges i.e. from NDM to DME.

Solution

This modification proposes that ratchet charges will be levied and then reimbursed for a Site with Interruptible Supply Point status changing to a Firm Daily Metered Supply Point from 1st April 2011 until 31 May 2012, for charges applicable from 01 October 2011 to 31 May 2012.

Impacts & Costs

It is anticipated that costs will be minimal as the proposal is to continue to charge Ratchet Charges and then reimburse these charges.

Implementation

It is proposed that the modification is implemented as soon as possible to provide surety to industry participants as to how they will be treated during the transition from Interruptible to Firm.

The Case for Change

Protection from ratchet charges for one year is proposed in the interests of allowing Consumers forced to change from Interruptible to Firm status time to adjust to the new regime.

The approach is consistent with previous changes including the recent introduction of the Daily Metered Elective Product. As Consumers are being forced to change products it is likely that many will take the opportunity to review existing supply arrangements and this may lead to more switching taking place in the run up to October.

This could lead to timing issues when trying to ensure the appropriate SOQs are set as the Appeals process will need to be utilised and potential Network Analysis undertaken if the existing SOQs are altered to reflect current requirements.

With the level of work required to transfer sites along with the potential embargo on registration and the default transfer of Consumers on existing data as a back stop (as proposed in Modification 0367), it is important to provide protection to Consumers in the first year of being transferred to a Firm load.



"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

0374
Workgroup Report

06 July 2011

Version 1

Page 3 of 14

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Recommendations

The Workgroup recommends that Modification 0374 is sufficiently developed to proceed to the Consultation Phase.

2 Why Change?

This modification has been raised to provide a soft landing when interruptible loads must transition to firm status on or before 1 October 2011. 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.

For sites being mandated to transition from Interruptible to Firm it avoids the risk of exposure to ratchets for the initial 12 month period which will allow Customers an appropriate period to verify peak load requirements without being subject to penal charges.

3 Solution

DM Ratchets

This modification proposes that ratchet charges will be levied and then reimbursed for a Site with Interruptible Supply Point status changing to a Firm Daily Metered Supply Point from 1st April 2011 until 31 May 2012, for charges applicable from 01 October 2011 to 31 May 2012.

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.	Yes
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	No

- c) The Proposer considers by allowing a soft landing, which protects consumers who may not be familiar with the forthcoming changes is consistent with efficient discharge of the licensee's obligations as it allows time to establish appropriate SOQ levels without the risk of suffering penal charges.
- Some Workgroup members do not consider relevant objective c) is furthered by this modification as they do not believe there are licence obligations which specifically require this action.

5 Impacts and Costs

Consideration of Wider Industry Impacts

The Workgroup concluded there were no wider industry impacts.

Costs

It is anticipated that costs will be minimal as the proposal is to continue to charge Ratchet Charges and then reimburse these charges. Xoserve indicative costs are in the region of £50k and it is proposed that Transporters fund these.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none">• None
Operational Processes	<ul style="list-style-type: none">• It is anticipated that impacts will be minimal as the proposal is to continue to charge Ratchet Charges and then reimburse these charges.
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">• None
Development, capital and operating costs	<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 envisaged

Impact on Transporters	
Area of Transporters' business	Potential impact

Impact on Transporters	
System operation	<ul style="list-style-type: none"> This modification removes a financial incentive for the provision of an accurate SOQ. Transporters consider this may create a material risk for the operation of the network. <p>The Proposer does not consider implementation of this modification creates a material risk for Transporters.</p>
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
Transition Document IIC	Additional paragraph to be added.

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

Impact on UNC Related Documents and Other Referenced Documents	
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

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

It is proposed that the modification be implemented as soon as possible to provide surety to industry participants as to how Consumers will be treated from October 2011.

7 The Case for Change

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

Advantages

Consumers who are being forced to switch are protected from Ratchet charges for a reasonable period, which will allow them time to establish appropriate SOQ levels without suffering penal charges.

The approach being proposed is consistent with the protection afforded customers voluntarily accessing the DME product and allows an appropriate time for customers to establish suitable levels of SOQ.

Consumers will be provided with a window during which they can establish appropriate levels for SOQ with the relevant Transporter e.g. appeals, re-enforcement works etc.

Disadvantages

Consumers will not be charged for Ratchets, which occur during the "soft landing" window.

This modification removes a financial incentive for the provision of an accurate SOQ. Transporters consider this may create a material risk for the operation of the network.

Some Workgroup members consider daily consumption information is currently available and therefore Users should be aware of the required SOQ for a site. Though this may not be an accurate indicator should a site have alternative fuel capability, as it may not reflect their actual use as a firm site.

Some Workgroup members consider this modification may impact those Users who have proactively managed their sites to ensure they are meeting their UNC obligations by ensuring their sites have an appropriate SOQ, as they will be paying higher charges compared to those who don't and subsequently have their ratchet charges refunded.

8 Legal Text

The Workgroup reviewed Draft Legal text provided by the Transporter and a number of amendments were proposed to the text.

Draft 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.

Add a new paragraph 6.1.4 to read as follows:

- “6.1.4 For the purposes of TPD Section B4.7 , in respect of any Interruptible Supply Point which has changed status to a Firm Interruptible Supply Point on 1 October 2011, a Supply Point Ratchet Charge will not apply for a period of 12 months commencing on 1 October 2011 and ending on the 30 September 2012.

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0374 be submitted for consultation.