Joint Office of Gas Transporters

Stage 02: Workgroup Report

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

The Workgroup recommends that this modification should now proceed to consultation.

High Impact:
Some categories of consumer

Medium Impact:
Some categories of consumer

Low Impact:
Shippers and Transporters

Contents

About this document:

This report will be presented by the Workgroup to the panel on [15 August] 2013.

The Panel will consider whether the modification is sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of this modification.

Any questions?

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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 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

No implementation timescales are proposed, although it is preferable that the implementation date is prior to 01 October 2013.

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.

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 bought 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 is 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 calculated using the formula below:

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

Where:

$C_{(new)}$ 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

$C_{(prev)}$ 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 ($C_{(new)} - C_{(prev)}$) 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 the 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.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification
This is not a User pays Modification [why not].
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
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

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 and lead to inefficient use of the Network. 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 which leads to more efficient planning and operation of the system [how does this mod help system operation on a daily basis].

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. The impact of a customer opting to leave the market because a capacity reduction was not available the effect would be much greater as the unused capacity would need to be funded.

By allowing shippers to book capacity, which accurately reflects future use, appropriate charges can be levied, thereby securing effective competition between relevant shippers and between relevant suppliers.

5 Implementation

No implementation timescales are proposed, although it is preferable that the date is prior to 01 October 2013. [

6 Legal Text

Text

The following Text has been prepared by National Grid Distribution, and no issues were raised by the Workgroup regarding its content. [text updated 02 August 2013]

UNC Defined Term

The following defined terms shall be deleted:

"Aggregate Bottom-Stop Capacity"
"Bottom Stop"

UNC Transportation Principal Document

Section G

Paragraphs 2.4.3 to 2.4.5 shall be amended to read as follows:

2.4.3 In the case of an LDZ Supply Point where the Proposed Supply Point includes a DM Supply Point Component:

(a) the Supply Point Capacity ("**Offered Supply Point Capacity**") specified in the Supply Point Offer shall be,~~:~~

~~(i) where the Nominated Supply Point Capacity is less than the Bottom-Stop Supply Point Capacity, the Bottom-Stop Supply Point Capacity;~~

~~(ii) otherwise, but~~ subject to paragraph 5.5, the Nominated Supply Point Capacity (provided that where the Nominated Supply Point Capacity is ~~not less than the Bottom-Stop Supply Point Capacity but~~ less than the Prevailing Supply Point Capacity, paragraph 2.7.3 shall apply);

(b) subject to paragraph 5.5, the Supply Point Offtake Rate specified in the Supply Point Offer shall be the Nominated Supply Point Offtake Rate~~; and~~

~~(c) the Supply Point Offer will also specify (for information purposes, where not specified under paragraph (a)(i)) the Bottom-Stop Supply Point Capacity~~.

2.4.4 Subject to paragraphs 1.9.9(b), 2.4.5 and 2.7.3, and unless and until a Supply Point Confirmation is made which becomes effective, a Supply Point Offer will remain valid for a period of six (6) months after it was made.

2.4.5 In the case of an LDZ Supply Point where the Proposed Supply Point includes a DM Supply Point Component, at any time at which the Proposing User has not submitted a Supply Point Confirmation:

(a) if~~:~~

~~(i) the Prevailing Supply Point Capacity becomes greater~~

than the Offered Supply Point Capacity, as a result of the occurrence in any month of a Supply Point Ratchet (pursuant to Section B4.7) in respect of any Existing Supply Point~~; or~~

~~(ii) at the start of a Gas Year, the Bottom Stop Supply Point Capacity becomes (pursuant to paragraph 5.2) greater than the Offered Supply Point Capacity~~

the Transporter will so notify the Proposing User whereupon the Supply Point Offer will lapse (but without prejudice to any Supply Point Confirmation submitted before such notification was given, in respect of which paragraph 2.7.4 will apply);

(b) save for the circumstances specified in paragraph 1.5.12, if the Prevailing Supply Point Capacity becomes greater than the Offered Supply Point Capacity, as a result of a Capacity Revision Application (in accordance with paragraph 5.1.4) made by the Registered User for an increase in Supply Point Capacity in respect of any Existing Supply Point, paragraph 2.7.3 shall apply.

Paragraph 2.7.4 shall be amended to read as follows:

2.7.4 In the case of an LDZ Supply Point where the Proposed Supply Point includes a DM Supply Point Component, at any time after a Supply Point Confirmation is submitted but before the Supply Point Registration Date:

(a) if~~:~~

~~(i)~~ the Prevailing Supply Point Capacity becomes greater than the Offered Supply Point Capacity, as a result of the occurrence of a Supply Point Ratchet (pursuant to Section B4.7.1) in respect of any Existing Supply Point~~; or~~

~~(ii) at the start of a Gas Year, the Bottom Stop Supply Point Capacity becomes (pursuant to paragraph 5.2.3(a)(i)) greater than the Offered Supply Point Capacity~~

the Confirmed Supply Point Capacity will be the increased to the Prevailing Supply Point Capacity ~~or (as the case may be) Bottom Stop Supply Point Capacity~~;

(b) if the Prevailing Supply Point Capacity becomes greater than the Offered Supply Point Capacity, as a result of the Registered User in respect of any Existing Supply Point applying for an increase in its Registered Supply Point Capacity, the Confirmed Supply Point Capacity will be the Offered Supply Point Capacity.

A new Paragraph 5.1A shall be added as follows:

5.1A.1 In the event of:

(a) a User applying for and the Transporter approving a Capacity Revision Application resulting in a decrease in the Registered DM Supply Point Capacity ("the Initial Capacity Reduction"); and

(b) within the same Gas Year as such Capacity Revision Application the same User applying for and the Transporter approving any further Capacity Revision Applications which increase the Registered DM Supply Point Capacity

then the User will pay the Capacity Reconciliation Charge on receipt of an Ad-hoc Invoice in accordance with section S.

5.1A.2 Subject to paragraphs 5.1A.3 and 5.1A.4, the Capacity Reconciliation Charge (or "CRC") will be calculated as follows:

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

Where:

$C_{(new)}$ is the aggregate of the LDZ Capacity Charges and the Capacity Variable Component of the Customer Charge, as calculated based on the increased Registered DM Supply Point Capacity level booked in respect of a Gas Flow Day; and

$C_{(prev)}$ is the aggregate of the LDZ Capacity Charge and the Capacity Variable Component of the Customer Charge, as calculated based on the prevailing level of capacity the Gas Flow Day before the new increase in the Registered DM Supply Point Capacity takes effect; and

D is the number of Days between the Gas Flow Day on which the Registered DM Supply Point Capacity was reduced as a result of the Initial Capacity Reduction and the Gas Flow Day on which the Registered DM Supply Point Capacity is increased ; and

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

5.1A.3 No CRC shall be payable by the User in respect of any capacity which is in excess of the Registered DM Supply Point Capacity on the Gas Flow Day preceding the Initial Capacity Reduction.

5.1A.4 Where a User has applied for and the Transporter has approved multiple Capacity Revision Applications reducing the Registered DM Supply Point Capacity the CRC shall be calculated in respect of each Gas Flow Day following the Initial Capacity Reduction and such daily CRC sums shall be aggregated. For the purpose of the calculation of CRC on a particular Gas Flow Day pursuant to this paragraph 5.1A, $C_{(prev)}$ is the aggregate of the LDZ Capacity Charge and the Capacity Variable Component of the Customer Charge, as calculated based on the Registered DM Supply Point Capacity on such Gas Flow Day.

Paragraphs 5.2.1 to 5.2.4 shall be amended to read as follows:

5.2.1 Subject to paragraph 5.2.10 a Registered User's Supply Point Capacity at a DM Supply Point Component~~,:~~

~~(a) shall not at any time be less than the Bottom Stop Supply Point Capacity; and~~

~~(b)~~ except within the Capacity Reduction Period or in accordance with paragraph 2.7.4(b), shall not upon the Supply Point Registration Date be less than, or thereafter be reduced below, the Prevailing Supply Point Capacity.

5.2.2 For the purposes of the Code "**Capacity Reduction Period**" means the months of October, November, December and January in any Gas Year.

5.2.3 Subject to paragraph 5.2.4, at any time in the Gas Year:

(a) ~~subject to paragraphm (d), the "**Bottom Stop**" Supply Point Capacity in respect of a DM Supply Point Component is:~~

(i) ~~the amount (~~the "**Preceding Year Maximum Capacity**" shall mean the amount~~)~~ 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, but not exceeding the Maximum Supply Point Capacity; or

~~(ii) if higher, where there has been a Supply Point Ratchet (in accordance with Section B4.7) in the Gas Year, the amount of the Prevailing Supply Point Capacity (subject to and in accordance with paragraph 5.5.5) following such (or if more than one, the most recent) Supply Point Ratchet;~~

(b) any New Supply Meter Point, and any Supply Meter Point which has become a DM Supply Meter Point, shall be disregarded in determining the Preceding Year Maximum Capacity of a DM Supply Point Component until the Gas Year which commences next after the first month of June which falls after the First Supply Point Registration

Date or (as the case may be) the date on which the Supply Meter Point became DM;

(c) subject to paragraphs 5.2.5 and 5.2.6, the "**Prevailing**" Supply Point Capacity in respect of the DM Supply Point Component of a Supply Point is the Supply Point Capacity for the time being held by the Registered User; and

(d) in the case of a DM Supply Point Component which comprises Shared Supply Meter Point(s)~~:~~

~~(i) the "**Aggregate Bottom Stop Capacity**" shall be the amount determined (irrespective of whether there were, or which Users were, Sharing Registered Users at any relevant time) as the aggregate of the Bottom Stop Supply Point Capacities in accordance with paragraphs (i) and (ii) for all DM Supply Point Component(s) which comprised such Supply Meter Point(s);~~

~~(ii)~~ for the purposes of paragraph (i) the Day by reference to which the Preceding Year Maximum Capacities are determined shall be the Day of the highest aggregate User SPDQs in respect of all relevant DM Supply Point Component(s)~~;~~.

~~(iii) the Sharing Registered Users jointly, or a User Agent on their behalf, may from time to time notify to the Transporter the amounts, and changes in the amounts, which are to be the Bottom Stop Supply Point Capacities in respect of their respective DM Supply Point Components, provided that in aggregate such amounts are equal to the Aggregate Bottom Stop Capacity; and~~

~~(iv) upon any change in the Users who are Sharing Registered Users, unless Bottom Stop Supply Point Capacities are notified to the Transporter in accordance with paragraph (iii) not later than such change, the Bottom Stop Supply Point Capacity in respect of each DM Supply Point Component shall be the Aggregate Bottom Stop Capacity divided by the number of Firm DM Supply Point Components.~~

7 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.