





UNC Workgroup Report		At what stage is this document in the process?
<h1>UNC 0696V:</h1> <h2>Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NExAs</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid blue; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid purple; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid orange; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification: To the extent to which a Consumer has entered into a bi-lateral Network Exit Agreement (NExA) with the relevant Transporter then any new or additional capacity charging should only apply from the relevant date set out in the NExA.</p>		
	<p>The Workgroup recommends that this modification should not be subject to self-governance</p> <p>The Panel will consider this Workgroup Report on <u>16 April 2020</u>. The Panel will consider the recommendations and determine the appropriate next steps.</p>	<div style="border: 1px solid green; padding: 2px; margin-bottom: 2px;">Deleted: [</div> <div style="border: 1px solid green; padding: 2px; margin-bottom: 2px;">Deleted:]</div> <div style="border: 1px solid green; padding: 2px; margin-bottom: 2px;">Deleted: dd</div> <div style="border: 1px solid green; padding: 2px;">Deleted: month 2019</div>
	<p>High Impact: Transporters, Shippers and Consumers</p>	
	<p>Medium Impact:</p>	
	<p>Low Impact:</p>	

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Timetable	
The Proposer recommends the following timetable:	
Initial consideration by Workgroup	27 June 2019
Workgroup Report presented to Panel	18 July 2019
Draft Modification Report issued for <u>C</u> onsultation	18 July 2019
Consultation Close-out for <u>R</u> epresentations	08 August 2019
Final Modification Report available for Panel	12 August 2019
Modification Panel <u>D</u> ecision	15 August 2019 (<i>at Short Notice</i>)
<u>Receipt of Ofgem's 'Send Back' Letter¹</u>	13 November 2019
<u>First Reconsideration of Proposal at Workgroup</u>	28 November 2019
Variation Request <u>S</u> ubmitted by Proposer	21 February 2020
Variation Request presented to Panel	19 March 2020
<u>Variation Request Accepted as Immaterial</u>	19 March 2020
<u>Workgroup Report presented to Panel</u>	16 April 2020
<u>Draft Modification Report issued for Consultation</u>	16 April 2020
<u>Consultation Close-out for Representations</u>	07 May 2020
<u>Final Modification Report available for Panel</u>	13 May 2020
<u>Modification Panel Decision</u>	21 May 2020

Any questions?

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¹ [Ofgem letter, dated 12 November 2019, entitled "Authority decision to send back Uniform Network Code \("UNC"\) 696 \("UNC696"\): 'Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NEXAs'](#)

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1 Summary

What

An inequity has been identified between the arrangements for capacity as set out in the NEXA which is a bilateral agreement between the Transporter and the Consumer and the UNC which is an agreement between the Shippers and Transporters.

Context

An example of the issues identified in this Modification is set out in Section 3 and provides the context for the proposed changes to the UNC.

Why

If the change is not made, then relevant Consumers will continue to be at risk of incurring charges under the UNC whilst being prohibited from benefiting from the new or additional capacity under the terms of the NEXA

How

It is proposed that any new or additional capacity requested for DM Supply Points under the UNC should only take effect from the date set out in the NEXA. This process would not apply to NTS Supply Points.

2 Governance

Justification for Authority Direction

As the proposal has a material impact on the Transportation arrangements for Shippers and relevant consumers and proposes a limited element of retrospection, it should, we believe, be subject to **Authority Direction**.

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- following further Workgroup review and development, in accordance with the recommendations in Ofgem's letter¹, ("the send back letter"), be submitted to Panel with a recommendation that it proceeds to consultation.

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3 Why Change?

Issue

An inequity has been identified between the arrangements for Capacity as set out in the Network Exit Agreement (NEXA) which is a bilateral agreement between the relevant Transporter and the relevant Consumer and the Uniform Network Code (UNC) which is an agreement between Shippers and Transporters. Following discussions with the relevant Transporter who are the only party to both sets of arrangements we have identified an inequity

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in the current arrangements which needs to be addressed to enable an equitable outcome for the Consumer and to avoid similar occurrences of Consumer detriment in the future.

Background

Customer A entered into arrangements to increase Capacity at one of their sites with Transporter B.

As the site is a major industrial site (Class 1) this involved considerable effort both in the form of resources, surveys, undertakings, and negotiation between Customer A and Transporter B. Due to this complexity the date that additional gas was required to be available was dynamic in nature.

Customer A was already subject to a NExA with Transporter B.

Transporter B and Customer A finally agreed bilaterally that the additional gas should be available for offtake from 1st December 2018 and a variation to the existing NExA was issued to the customer to this effect.

However, during the project, prior to the variation to the NExA being finalised, a Capacity increase was proceeded by Shipper C (in this case the current Shipper) for a date prior to the 1st December 2018. This was due to both the dynamic nature of the project and pressure to ensure Capacity was available in a timely manner and to avoid the risk of ratchet charges being applied by Transporter B under the UNC i.e. if the site was to use the increased capacity prior to a capacity increase being approved the site would have been subject to penal Ratchet charges.

This capacity increase request was referred to Transporter B.

Despite Transporter B being party to the terms of the revised NExA negotiations and thus aware that this only allowed for offtake from 1st December the referral was accepted for a date prior to the 1st December and the increase registered prior to the 1st December 2018.

This has led to the Customer being charged hundreds of thousands of pounds for additional Capacity that they were prohibited, under the terms of the NExA, from taking prior to the 1st December.

For the avoidance of doubt detailed discussions have taken place to seek to address this matter. However, it has been noted that the current drafting in the UNC needs to be amended to enable an equitable resolution.

This proposal would ensure that Shippers and Customers are not subject to this unfair charging risk in future and would also seek to recover the costs unfairly levied against Shipper C and Customer A i.e. the proposal has a limited degree of retrospection. For the avoidance of doubt this solution will be enduring so preventing this issue from occurring in the future.

Retrospective Arrangements

Ofgem currently applies a number of tests regarding retrospection:

- a situation where the fault or error giving rise to additional [material] costs or losses was directly attributable to central arrangements;
- combinations of circumstances that could not have been reasonably foreseen; or
- where the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

This issue meets all of these tests, in that restriction in LDZ Capacity becoming available has resulted owing to mismatches in central system processes and processes operated by the Gas Transporters (NExAs). It could not be reasonable foreseen at the time when these discussions were being undertaken to increase capacity that such a mismatch would be allowed to occur by the Gas Transporters.

The impact of retrospection would be simply to refund the capacity payments made by the Gas Shipper for the affected meter points. These additional costs come out of allowed revenue, so there will be a minimal impact to the rest of the market as the refund will be spread across the whole DN.

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4 Code Specific Matters

Reference Documents

[Link to: JNC TPD Section G](#)

[Link to: UNC TPD Section J](#)

Network Exit Agreement (NExA) – to be provided

NOT on JO - NEEDS TO COME FROM SOMEWHERE!

5 Solution

Solution

It is proposed that any new or additional capacity for DM Supply Points (excluding NTS Supply Points), that is Class 1 or Class 2 Supply Meter Points, requested under the UNC should only take effect from the date set out in the NExA.

Business Rule 1 (BR1)

Any requests for new or additional capacity for DM Supply Points (excluding NTS Supply Points) shall, were a relevant NExA exists, only take effect from the relevant date set out in the NExA.

Business Rule 2 (BR2)

This change would be effective from 1st September 2018, with the CDSP correcting any capacity charges for sites identified by a Shipper as having been affected by the mismatch in NExA and UNC capacity booking processes.

Business Rule 3 (BR3)

In the event of a Ratchet occurring that exceed the SOQ as set out in the NExA then the PMSOQ will not increase in line with normal practice. Instead the PMSOQ will be capped in line with the SOQ set out in the NExA. In such circumstances the Ratchet charge will be based on the SOQ that caused the Ratchet to occur. If in the relevant billing period (as set out in B4.7.13) a subsequent Ratchet occurs then any Ratchet Charge will not include any charges that have already been incurred under the previous Ratchet.

For the avoidance of doubt, we are comfortable, to avoid system changes, that such a correction can happen after a Ratchet charge has been raised, For example:

1. SP1's SOQ is currently 90
2. SP1 uses 120 on Day X and Ratchets
3. This exceeds the SOQ set out in the NExA for SP1 of 100
4. The PMSOQ will not exceed 100, as set out in the NExA
5. A Ratchet charge will be based on 120

6. SP1's SOQ is currently 100
7. SP1 uses 110 on Day Y and Ratchets
8. This exceeds the SOQ set out in the NExA for SP1 of 100
9. The PMSOQ will not exceed 100, as set out in the NExA
10. A Ratchet charge will not be applied as the Shipper has already been charged for 120

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6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None

Consumer Impacts

Impacts consumers who are party to NExA arrangements and wish to amend their capacity requirements.

Consumer Impact Assessment

(Workgroup assessment of proposer initial view or subsequent information)

Criteria	Extent of Impact
Which Consumer groups are affected?	<ul style="list-style-type: none"> Domestic Consumers Small non-domestic Consumers Large non-domestic Consumers Very Large Consumers
What costs or benefits will pass through to them?	<u>No implementation costs would transfer directly to the consumer.</u>
When will these costs/benefits impact upon consumers?	<u>Benefits would arise due to an assurance that any capacity booked would be capped and aligned with the NExA, and if the Supply point exceeds the capacity set out in the NExA, a degree of capping of Ratchet Charges would be applied.</u>
Are there any other Consumer Impacts?	<u>None</u> <u>CONFIRM THESE</u>

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Insert text here

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Insert text here

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Are there any impacts on switching?¶
Is the provision of information affected?¶
Are Product Classes affected?¶
Insert text here

General Market Assumptions as at December 2016 (to underpin the Costs analysis)

Number of Domestic consumers	21 million
Number of non-domestic consumers <73,200 kWh/annum	500,000
Number of consumers between 73,200 and 732,000 kWh/annum	250,000
Number of very large consumers >732,000 kWh/annum	26,000

Cross Code Impacts

There should be no known impacts on other Codes

EU Code Impacts

None

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Central Systems Impacts

Initially, as Modification 0696 was restricted to specific event, and since there only a limited number of Supply Points where NExAs exist, logically the circumstances envisaged by the proposal could only occur on very small number of occasions. As such, the view of the Workgroup was that any refunds of excess capacity charges could, and should, have simply been processed by way of a manual workaround type solution.

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Since receipt of the send-back letter, and following further development discussions at the Workgroup, Modification 0696V has been raised to address a further specific issue regarding the treatment of Capacity Ratchet Charges being incurred while the Supply Point Capacity (SOQ) was effectively capped at the daily capacity value set-out in the NExA.

The view of the Workgroup, and the CDSP, was that this element created a degree of complexity above that of Proposal 0696, and that a semi-systematised solution should be developed

As part of the further Workgroup, this has now been developed and a UK-LINK change, specified in ROM: XRN 5096 has been specified as part of the implementation plan.

The business rules set out in the ROM are detailed below:

For NExA sites the PMSOQ should not exceed the NExA daily capacity confirmed by the Transporter.

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1. New or enhanced internal screen for Xoserve business users to update the PMSOQ for any site to a configurable user input value
2. Where the PMSOQ has been set through Xoserve via the internal screen, this should remain the PMSOQ and override the current calculation to obtain the PMSOQ (2 times the SOQ or 16 times the SHQ)
3. The screen should allow Xoserve business users to update the PMSOQ for any site, at anytime
4. Data cleanse/migration activity required to ensure that no NExA sites have a higher PMSOQ than the NExA daily capacity value which will be provided by Transporters.

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Rough Order of Magnitude

The following cost statement has been extracted from ROM: Change Reference Number: 5096

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An enduring solution will cost at least £29,000, but probably not more than £47,000 to implement.

Workgroup Impact Assessment

Since receipt of the send-back letter in November, the Workgroup has met on 5 occasions with two principal objectives:

1. To expand and enhance the Workgroup Report to cover the Authority's additional request for detail and clarity, as specified in the letter, principally:
 - a. Clarification of the current capacity booking arrangements, as set out in UNC TPD Section G and Section J, (Set out in Section 11.1)
 - b. Detail on the deficiencies in the current arrangements. (Set out in Section 11.3)
 - c. Review of impact on central systems, processes and procedures. (Set out in Section 6)
 - d. Review and Assessment of the legal text. (Set out in Section 9)
2. To develop and provide a solution around the treatment of Capacity and Capacity Ratchet Charges occurring during a period where the NExA daily capacity value was the controlling factor for setting the Supply Point Capacity, identified as a concern during discussions held in Workgroup meetings held post receipt of the send-back letter.

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In terms of item 2, discussion of possible enhancements to the rules commenced at the November Workgroup, with comparisons made between the way that PMSOQ caps Registered Supply Point Capacity following a ratchet and the way a NExA daily capacity value would effectively cap any the SOQ. Consideration was given to this point and Xoserve actioned to provide scenarios.

At the December meeting, following consideration of the Scenarios, it was agreed that the Proposal should be amended to account for instances where the daily offtake at a Supply Point exceeded the daily capacity value set-out in the NExA.

Following consideration of the scenarios, the view of the Workgroup was that the Solution, Legal Text, System Changes and Implementation requirements would need to change. Consequently:

1. Business Rule 3, (BR3), has been added to the Solution to ensure that the daily capacity value set out in the NExA would cap SOQ in the event of a ratchet, and also sets out the treatment of any associated ratchet charges
2. An amended version of the text has been provided by WWU for consideration at the March Workgroup
3. A ROM has been provided to provide semi-automated "set and reset" functionality for capacity values amended by the circumstance set-out in BR3.

Meetings held during 2020 have been spent resolving the detail and method of implementation for BR3, (in anticipation of a Variation Request), and reviewing the legal text.

The workgroup is of the opinion, following the amendment to the Proposal, and introduction of the system changes, the solution, as documented, is sufficiently developed to proceed to a further phase of consultation.

Check we are happy with this statement

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Case for Retrospection – do we want to expand?

Case for Retrospective Application of BR2

Case against Retrospective Application of BR2

7 Relevant Objectives

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Impact of the modification on the Relevant Objectives:

Relevant Objective	
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of <ul style="list-style-type: none"> (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.	Positive

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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.	None
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.	Positive
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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The following Relevant Objectives would be furthered by implementation.

Relevant Objective c) because

Relevant Objective f) because

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8 Implementation

COMMENTS ON IMPLEMENTATION

Timescale

The high-level estimate to develop and deliver this change is approximately 16 weeks and includes 2 weeks of Post Implementation Support

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9 Legal Text

Legal Text Commentary

Legal Text

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10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup agree that this modification should now return to Panel with a recommendation that it proceeds to consultation.

- ~~This proposal requires further assessment and should be returned to Workgroup.~~

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This [self-governance] modification should proceed to consultation.

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11 Supplementary Information

Following the receipt of the send back letter, which set out the Authority's decision to "send-back the proposal back to industry for further discussion at Workgroups and revision", this report has been produced address the matters set-out in the letter as requiring more detail and information as to why a modification to the UNC should be made.

11.1 Overview of the current arrangements, such as they relate to capacity booking and NEXAs

Synopsis of Procedures & Responsibilities

This synopsis should be read in conjunction with Section G5 and Section J of the UNC, and in the event the two documents do not strictly align, the UNC TPD has primacy.

Section G - Supply Point Capacity

The principal underlying the basis for booking capacity at LDZ DM, (Class 1 & Class 2), Supply Meter Points, is that the shipper has the responsibility for registering the appropriated level of capacity at individual supply points.

To increase a capacity booking, using information obtained as the registered user, or as a prospective registered user, the shipper should asses the requirement of the supply point and submit capacity increase request, through UK-Link, to the transporter for authorisation.

The request will either be auto-approved using pre-set parameters in the system, (within 5 business days of the request being submitted), or referred to the network operator for network analysis and subsequent approval or disapproval, (which may take up to 21 business days).

Both in terms of hourly offtake rate and daily capacity, the quantity of gas offtaken during a hour or within day is not [commercially] restricted, although once the daily quantity has been verify on D+1, should the daily quantity exceed the registered capacity the process for dealing with these events is as follows

The full marginal capacity utilised would be subject to a ratchet charge and would automatically be registered to the shipper but the registration would be capped at the Provisional Maximum Supply Point Capacity, (PMSOQ), (which is set at 16 x the hourly offtake rate).

Any element of capacity between the PMSOQ and the full marginal capacity utilised would be subject to additional network analysis, before being allocated / disapproved.

Nothing in the UNC, in terms of daily offtake rates and daily capacity registrations, prevents the network operator from taking action to reduce the rate at which gas is offtaken if, in its opinion, a consumer is prejudicing the safe operation of the network.

Section J - Exit Requirements

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Section J establishes that Supply Points, particularly large offtakes or offtakes with complex requirements, may be governed by separate agreements to supplement the standard UNC arrangements. These supplementary arrangements are known as Network Exit Provisions (NEPs) and the separate agreements are known as Network Exit Agreements, (NExAs)

A NExA can be either a bilateral agreement, (between the transporter and customer), or tripartite agreement, (between the transporter, customer & shipper(s)), that contains site specific terms relating to a range of Network Exit Provisions. For the purposes of this proposal, a NExA may contain values pertaining to capacity.

In terms of amending the NEPs in a NExA, the governance arrangements are contained in the provisions of J4.3.6, which requires that the registered user is informed of, and consents to, amendments that come into effect during its period of registration.

Additionally, under Section J5.2, there is a requirement for the transporter to inform a nominating shipper of the existence of a NExA, (although it is not required pass on specific terms). Thereafter, the UNC states that the shipper is responsible for contacting the customer and obtain details of the NExA and the User shall be responsible for ascertaining the terms thereof from the relevant consumer; and where the User subsequently submits a Supply Point Confirmation the User shall be deemed to be fully informed of such terms.

The key point being made in the proposal is that, in terms of a relationship between the capacity booked through Section G and the capacity arrangements set out in a NExA, there is no UNC rule-based correlation between the two, a situation that the proposal seeks to remedy by capping the Section G capacity bookings at the level set out in the NExA.

11.2 Workgroup Comments on these statements:

The unamended version of Section 11.1 of this document was circulated to the Modification 0696 Workgroup on 17th December 2019, with the Workgroup being actioned to review and comment.

One response was received, from SGN, whose comments have been incorporated into this version

11.3 Detail on the deficiencies in the current arrangements – as described in the proposal

The deficiency, according to the proposer, is that while there are informational pathways in place intended to help prevent this type of capacity mismatch occurring, there is no absolute rule, nor systematised block, to prevent the Section G Capacity Bookings being greater than the daily capacity value, (or equivalent terms depending on the actual drafting of the NExA), recorded as part of the Network Exit Provisions.

11.4 Review of impact on central systems, processes and procedures

Initially, as part of the solution for Proposal 0696, given the very low volume of transactions, the view was that any refunds would be authorised by the transporter and invoiced as an ad-hoc credit. Following the development of BR3 as part of the Variation request, the level of complexity associated with managing instances of NExA capped capacity ratchets warranted the development of a semi-automated solution for setting and resetting Supply Point Capacity.

Consequently, the proposal now has an XRN and a UK-LINK change specified as part of implementation

System changes associated with the implementation of this proposal are captured in more detail in Section 6 of the Workgroup Report for Modification 0696V

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