






UNC Draft Modification Report	At what stage is this document in the process?
<h1 data-bbox="134 322 657 412">UNC 0818:</h1> <h2 data-bbox="129 450 1153 589">Releasing of unused capacity under a specific set of circumstances</h2>	<div data-bbox="1209 315 1477 636"> <div data-bbox="1209 315 1477 394">01 Modification</div> <div data-bbox="1209 398 1477 477">02 Workgroup Report</div> <div data-bbox="1209 481 1477 560">03 Draft Modification Report</div> <div data-bbox="1209 564 1477 642">04 Final Modification Report</div> </div>
<p data-bbox="129 696 507 730">Purpose of Modification:</p> <p data-bbox="129 752 1469 1066">Occasionally capacity is booked but remains unused for years. This is only an issue for other Shippers and end consumers where there is limited capacity available on the same part of the system. This Modification is to release the unused capacity only where a site meets set specific criteria. These criteria are detailed and specific with a site having to meet all of the criteria for the modification to apply to them. The intention is that this Modification will be limited to a small number of sites who it is believed are holding capacity they are not using, and have not used for at least 36 months; and where there is a genuine need by others for capacity but this is current unavailable because sites are holding excess capacity.</p>	
<p data-bbox="129 1111 308 1144">Next Steps:</p> <p data-bbox="129 1167 1481 1451">This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this Modification. The close-out date for responses is 24 February 2023, which should be sent to enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at www.gasgovernance.co.uk/0xxx. The Panel will consider the responses and agree whether or not this Modification should be made.</p>	
<p data-bbox="129 1547 397 1581">Impacted Parties:</p> <p data-bbox="129 1603 1129 1738">High: Shippers, Distribution Network Operators, Some I&C consumers Low: Suppliers None: NTS, IGTs</p>	
<p data-bbox="129 1789 387 1823">Impacted Codes:</p> <p data-bbox="129 1845 1406 1883">No other code impacts are identified (IGT CSEPs will be out of scope of this modification).</p>	

Contents		 Any questions?
1	Summary	3
2	Governance	4
3	Why Change?	5
4	Code Specific Matters	7
5	Solution	7
6	Impacts & Other Considerations	9
7	Relevant Objectives	15
8	Implementation	16
9	Legal Text	16
10	Recommendations	17
Timetable		
Modification timetable:		 07580 215743
Pre-Modification Discussed (<i>distribution</i>)	28 Jul 2022	Transporter: Tracey Saunders Northern Gas Networks
Date Modification Raised	16 Aug 2022	
New Modification to be considered by Panel	15 Sep 2022	 trsanders@northyorkgas.co.uk
First Workgroup Meeting	22 Sep 2022	
Workgroup Report to be presented to Panel	19 Jan 2023	 07580 215743
Draft Modification Report issued for consultation	20 Jan 2023	
Consultation Close-out for representations	24 Feb 2023	Systems Provider: Xoserve
Final Modification Report available for Panel	01 Mar 2023	
Modification Panel decision	16 Mar 2023	 UKLink@xoserve.com

1 Summary

What

The UNC works on the principle that as long as capacity is being paid for, there is no explicit obligation for the whole of the capacity to be utilised. This allows Users to plan for their capacity, and in the case of Class 1 and 2 sites, book capacity to minimise risk of overuse and incurring ratchets.

In some instances, this can result in sites booking a significantly higher capacity than they utilise, which can be inefficient for the Site, Shipper, and/or Distribution Network Operator (DNO). The Supply Point Offtake Rate (SPOR) Review Process (also referred to as Mod 390 process) as per UNC TPD Annex B-3 11 is in place so that DNOs can reach out to these sites to advise them of the overbooking, and ask them if they would like to consider reducing their booked capacity.

The potential issue arises where a site has booked capacity on an enduring basis that is significantly higher than their usage, and the site is in an area of the Distribution Network where there may only be limited available capacity for other Users. This can result in capacity requests from other Sites/Shippers being rejected, resulting in risk of additional costs to these sites to pay reinforcement costs should they wish to secure the additional capacity.

Why

Occasionally capacity is booked but remains unused for years. This is only an issue for other Shippers and end consumers where there is limited capacity available on the same part of the system. This Modification is to release the unused capacity only where a site meets set specific criteria. This criteria is detailed and specific with a site having to meet all of the criteria for the modification to apply to them: The intent of which is that this modification will be limited to a small number of sites who it is believed are holding capacity they are not using, and have not used for at least 36 months; and where there is a genuine need by others for capacity but this is current unavailable because sites holding excess capacity.

In areas of the Distribution Network that have limited capacity available for other Users DNOs may have to: a) ask any sites, wishing to reserve capacity that is currently unavailable, to have to pay for reinforcement works which can be costly, or b) in other cases the DNO may be required to pay to reinforce the Distribution Network to maintain their 1 in 20 planning requirements, which is an obligation in the Gas Transporters Licence Standard Special Condition A9¹ (SSCA9) obligations, a cost which is later recovered under the pricing methodology. Both of these options have adverse impacts to end consumers and are inefficient use of the Distribution Network.

Whilst this is unavoidable in most circumstances, there are occasional circumstances where capacity has been booked that is significantly higher than the capacity that has been used on an enduring basis, including any peak offtake.

By releasing the unused 'sterilised' capacity back to the DNO this ought to aid in increased competition as this should allow other Shippers, who require capacity on this area of the Distribution Network that has previously been unavailable, a chance for successful capacity nomination referrals.

Increasing capacity in areas of limited availability reduces the need for Sites to have to pay for costly reinforcement works which could be the only other option for them to be able to make available the capacity they require.

¹ <https://epr.ofgem.gov.uk/Document>

Increasing the available capacity in areas where there is only limited capacity available should aid the DNOs in ensuring they meet their 1 in 20 planning requirements, reducing the need for costly reinforcement works, which are recovered via pricing. This should aid efficient running of the Distribution Networks and potentially keep associated reinforcement costs, that can impact end customer's bills, as low as possible.

How

This Modification proposal looks to introduce an annual process which gives the DNOs the ability to identify Sites that meet specific criteria:

- That the Site is in Class 1 (and has been for at least 3 years). This also include Sites that have been Transporter designated under UNC TPD 4.7.16 (also known as mod 655 process) for a minimum of 3 years
- The Site has not paid for reinforcement works in order to book the capacity they currently hold
- The Site is directly connected to the Distribution Network (i.e. not via a CSEP)
- That the Site must be on an area of the Distribution Network where there is limited available capacity for other Sites/Users
- That the Site must have been consistently under using its booked capacity for at least 3 years, this will be extended to take account of periods of exceptional circumstances (e.g. Covid).
- That the site must have been included in the SPOR process within the 15 months prior
- That the Site is not category A Priority Supply Point (as defined by Secretary of State)

Other history around the Site may also be taken into consideration (for example the mod 390 process).

Where a Site meets the criteria, this will result in the ability for the DNO to consider the Site eligible for a reduction (which will result in a Supply Point Offtake Rate of no less than 150% single highest hourly offtake rate (in kWh/hour) recorded at the DM Supply Point during same period). In these instances a notification would be sent to the Shipper, containing relevant information about the Site and the proposed new Supply Point Offtake Rate (SHQ), and new peak daily load (SOQ) which will be SHQ x 16 (unless otherwise stated), which the Shipper would then have the ability to appeal.

2 Governance

Justification for Authority Direction

As this Modification could have a material impact on efficient use of Distribution Network and/or end consumer funding in relation to provision of available capacity, and is looking to introduce a process that is only relevant to Class 1 sites, the Proposer recommends that this Modification should be Authority Direction.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup.

3 Why Change?

The current principle within UNC is that a user is entitled to retain booked & confirmed capacity, regardless of whether they use all of the capacity, as long as they are paying for it.

Whilst this is a solid principle there are some instances where this booked, but unused, capacity could be preventing other users from being able to book the required capacity they need, this is commonly known in industry as 'sterilised capacity'. Why a Shipper/end consumer has booked this excess capacity can include, for example, it being line with business expansion plans and they need to ensure the capacity is available to them before undertaking costly building works etc.

The Distribution Network Operators (DNOs) have the ability to write to sites under the Supply Point Offtake Rate (SPOR) Review Process (also known as 'Mod 390' process') as per UNC TPD B11, to advise them that they have excess capacity booked, and to ask them to consider reducing their booking. Whilst this process obliges the Shipper to enter into discussions with the identified sites, it does not oblige the Shipper User, or the end consumer, to reduce their capacity booking.

Where there are areas of the Distribution Network that may have limited capacity available for other Shipper Users, DNOs may have to either ask any sites, wishing to reserve capacity that is currently unavailable, to have to pay for reinforcement works which can be costly. Or in other cases the DNO may be required to pay to reinforce the Distribution Network to maintain their 1 in 20 planning obligations as per their Gas Transporters licence, a cost which is later recovered under the pricing methodology. Both of these options have adverse impacts to end consumers connected to that specific Distribution Network.

Whilst this is unavoidable in most circumstances, there are occasional circumstances where capacity has been booked that is significantly higher than the level of capacity that has been used on an enduring basis, including any peak offtake.

This modification proposal is looking at only these sites: i.e. where they are on a part of the Distribution Network that has limited available capacity for other Shipper Users, and bookings are considerably higher than the recorded peak capacity use.

This modification proposal looks to introduce the ability for the DNOs to review booked capacity vs utilised capacity under a specific, strict, set of circumstances and, where relevant, for the capacity to be reduced to a new value stated by the DNO. Once the capacity has been reduced for the site/s, the DNOs will follow standard process in relation to requests for capacity for this area, and any other, of their network

By releasing the unused 'sterilised' capacity back to the Distribution Network this could aid in increased competition as this should allow other Shippers who require capacity on this area of the Distribution Network, that has previously been unavailable, a chance for successful capacity nomination referrals.

By increasing the available capacity, in areas where there is only limited capacity available, this should reduce the need for sites to have to pay for costly reinforcement works which could be the only other available option for them to be able to make available the capacity they require.

By increasing the available capacity in areas where there is only limited capacity available, this should aid the DNOs in ensuring they meet their 1 in 20 planning requirements, reducing the need for costly reinforcement works, which are recovered via pricing. This should aid in efficient running of the Distribution Network and potentially keep associated reinforcement costs, that can impact end customer's bills, as low as possible.

The site would need to meet the following criteria:

- That the Site is in Class 1 (and has been for at least 3 years). This also include Sites that have been Transporter designated under UNC TPD 4.7.16 (also known as mod 655 process) for a minimum of 3 years
- The site has been included in the SPOR (UNC TPD Annex B-3 11) process within prior 15 months
- The Site has not paid for reinforcement works in order to book the capacity they currently hold
- The Site is directly connected to the Distribution Network (i.e.not via a CSEP)
- That the Site is not category A Priority Supply Point (as defined by Secretary of State)
- That the Site must be on an area of the Distribution Network where there is limited available capacity for other Sites/Users
- That the Site must have been consistently under using its booked capacity for at least 3 years, this will be extended to take account of periods of exceptional circumstances (e.g. Covid).

Other history around the Site may also be taken into consideration (for example the mod 390 process).

Where a Site meets the criteria, this will result in the ability for the DNO to consider the Site eligible for a reduction (which will result in a Supply Point Offtake Rate of no less than 150% single highest hourly offtake rate (in kWh/hour) recorded at the DM Supply Point during same period). In these instances a notification would be sent to the Shipper, containing relevant information about the Site and the proposed new Supply Point Offtake Rate (SHQ), and new peak daily load (SOQ) which will be SHQ x 16 (unless otherwise stated).

An appeal window which could, for example, take into account evidence of plans for the capacity to be utilised at a point within the next 3 or less years, would be included in the process. Any appeal would also be invited to, where relevant, include a counter capacity reduction figure if the appeal evidence demonstrates an alternative reduced figure would be more appropriate.

Any site selected (where is it not subject to a successful appeal removing it from the process) would then be reduced to the DN suggested SOQ (or in the event of a successful counter appeal, the agreed SOQ) by the incumbent Shipper on a specific date within the Capacity Reduction Window.

It should be noted that where a Shipper fails to reduce the capacity, the CDSP will be given an obligation to do so, and for them to do this at cost to the shipper that was in place for the site on the specified reduction date.

We would look to introduce a capacity reduction assessment process as follows:

- Day 1: The Transporter provides the information relating to sites meeting the criteria, and where capacity is proposed to be reduced, to the relevant shipper
- Month 1 & 2: Appeal process, this is where the Shipper can provide any relevant information they have (including from the site) in relation to plans for the capacity to be utilised at a point within the next 3 or less years. This can include a counter capacity reduction figure if the appeal evidence warrants an alternative reduced figure. *Shippers are encouraged to also confirm where there is no challenge to the reduction.*
- Month 3: DN to consider appeal and confirm outcome to Shipper. *(Any sites successfully appealed to be removed from the process will not progress any further)*
- Month 4: Shipper to notify site of final outcome,
- Month 4 + 1day (capacity reduction date): Shipper to reduce the capacity to the figures as per the figures confirmed in month 3, *(This date will be within the capacity reduction window).*
- Month 5 (Backstop date): CDSP may reduce capacity where it has not been carried out by the relevant shipper at month 4.

For any site where SOQ is reduced under this process the Registered User shall not be liable for any Supply Point Ratchet Charge in respect of the Supply Point for a period of 12 months (also known as a 'soft landing' period).

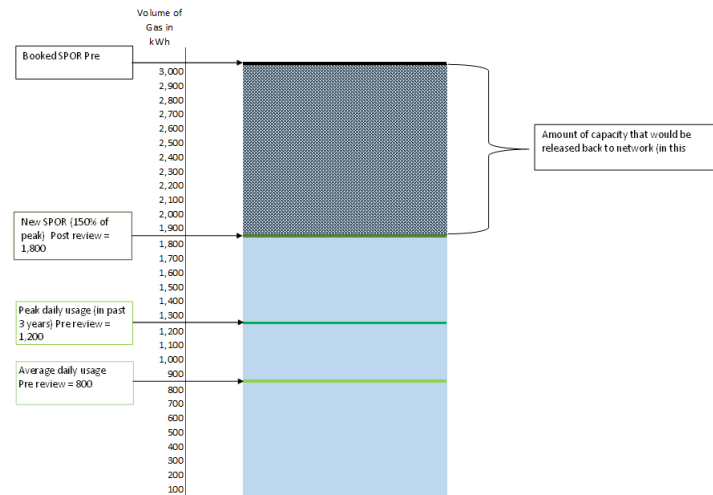
Once a Site has been identified and its SOQ reduction has been successfully completed, the site will be subject to standard UNC rules, and may seek to increase, or decrease its capacity accordingly.

All 'days' quoted are calendar days

Worked example:

The following site meets the criteria, and has the following values:

- Booked Capacity = This is set to 3,000 kWh
- Its average daily usage is 800 kWh
- Over the prior 3 year period the site has had a peak offtake of a daily usage of 1,200 kWh
- Therefore the site is proposed to be reduced to 150% of its peak usage, i.e. 1,200 kWh X 150% = 1,800 kWh
- Sites Supply Point Offtake Rate (SHQ) is reduced from 3,000 kWh to 1,800 kWh under the process, thereby releasing 1,200 kWh of capacity back to the network.
- SHQ x 16 results in potentially 18,400 daily capacity (SOQ) becoming available for other Users



4 Code Specific Matters

Reference Documents

None

Knowledge/Skills

Knowledge of the UNC, especially in relation to Supply Point Capacity.

Understanding of 1 in 20 conditions as stated in the Gas Transporters Licence Standard Special Condition A9¹ above

5 Solution

To add Capacity Reduction Assessment Process into the UNC.

Business Rules:

- 1) Site nomination criteria:
 - a) That the site is in Class 1 (and has been for at least 3 years). This also include sites that have been transporter designated, under UNC TPD 4.7.16, for 3 or more years.
 - b) That the site must be directly connected to the DNO network (i.e. not via a CSEP)

- c) That the site has not paid for reinforcement work specific to capacity for the MPRN being considered under this process
 - d) That the site must be on an area of the Distribution Network where there is limited available capacity for other sites/Users
 - e) That the site must have been consistently under using its booked capacity for at least (3) years, this will be extended to take account of periods of exceptional circumstances (e.g. Covid)
 - f) The site must have been included in the UNC Section G 5.7 Supply Point Offtake Rate Review Process within the prior 15 months.
 - g) Other history around the site may also be taken into consideration (for example the UNC Section G 5.7 Supply Point Offtake Rate Review Process).
 - h) That the Site is not category A Priority Supply Point (as defined by the Secretary of State)
- 2) Information that must be provided by the Transporter for sites nominated, and meeting the above criteria:
- a) the new SHQ & SOQ that the capacity is to be reduced to, which cannot be less than 150% of the highest the single highest offtake rate (in kWh/day) recorded at the DM Supply point over the past (3) years. The SOQ will be calculated as SHQ x 16 unless otherwise stated.
 - b) the existing SOQ & SHQ for the time being held by the Registered User (the “Existing Supply Point Offtake Rate”)
 - c) the Meter Point Reference Number
 - d) the Supply Point Reference Number
 - e) the address details; and
 - f) any further information relating to the DM Supply Point Component that the DNO considers would assist the Registered User
- 3) Process timeline (calendar days)
- a) D-121 Transporter advises Shipper of nominated sites and all relevant information (as per BR2)
 - b) D-120 Appeal Window opens
 - c) D-61 Appeal Window closes
 - d) D-60 to D-32 Transporter to consider appeal
 - e) D- 31 Transporter to notify Shipper of outcome of appeal
 - f) D-30 to D-1 Shipper to advise site of outcome of process, including date of reduction and the new SOQ & SHQ that will be in force at this date.
 - g) D = Date that the User reduces capacity booking for nominated site (Transporter Nominated Capacity Reduction Date)
 - h) D +30 CDSP Transporter Nominated Capacity Reduction Backstop date: From this date, the CDSP may carry out a reduction on Shipper behalf, where Shipper has not yet done so under (g)
 - i) D+ The Registered User shall not be liable for any Supply Point Ratchet Charge in respect of the Supply Point for a period of 12 months.
- 4) Capacity can be reduced within the capacity reduction window as defined in UNC TPD B 2.2 and by the CDSP on at any time in relation to the Transporter Nominated Capacity Reduction Backstop)

6 Impacts & Other Considerations

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

No.

What is the current consumer experience and what would the new consumer experience be?

Workgroup has discussed the table below with the Proposer and the resulting entries have been updated in line with Workgroup comments.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
<p>Lower bills than would otherwise be the case</p> <p>Decreasing the Capacity charge element for identified sites where Supply Point Offtake Rate is reduced for Class 1 sites.</p> <p>Potentially reducing the need for Sites to have to fund reinforcement works where they require additional or new capacity in 'restricted' areas of the Distribution Network</p>	Positive for transportation costs for site in relation to site specific reinforcement costs.
<p>Reduced environmental damage</p> <p>As this could potentially reducing the need for reinforcement works, which can have an impact on the environment, the impact to the environment will be by definition be lower where no works take place, than they would be where any works take place, regardless of the care and consideration of impact of these works.</p>	Positive

<p>Improved quality of service</p> <p>Potentially reducing the need for Sites, who meet the criteria as stated in Gas Transporter Licence Condition 4b Connections Charging Methodology Statement², to have to fund reinforcement works where they require additional or new capacity in 'restricted' areas of the network</p> <p>Potentially reducing the risk of reinforcement works on the Distribution Network,</p> <p>Any reinforcement works impacts consumers and general public in the area. Roadworks as well as temporary interruptions or fluctuations to supply may be an impact of reinforcement that would therefore be reduced if less, or no, reinforcement was needed.</p>	<p>Positive in relation to impact of reinforcement.</p>
<p>Benefits for society as a whole</p> <p>The ability for new sites to potentially connect without reinforcement costs could have an impact as to whether a business or site sets up in the area, which could have a direct impact on local jobs and economy</p>	<p>Positive (at a local level)</p>

Cross-Code Impacts

No Cross code impacts have been identified. This only impacts DN direct connect sites that are Class 1 and that meet specific criteria.

EU Code Impacts

None identified.

Central Systems Impacts

Identified system changes:

- CDSP to enact capacity reduction where Shipper has failed to do so (Change to DSC Service line as the relevant Shipper should bear any specific CDSP costs of reducing the capacity, including any administration costs)
- CDSP to apply & remove Ratchet 'soft landing'
- CDSP to provide reports to DNs in relation to bookings vs capacity etc as identified under any required Change process
- CDSP to manage process and provide relevant manual or system flows to ensure data is passed between DNs and Shipper Users in relation to the process

Due to the limited number of sites that could potentially be included in this modification proposal, it is envisaged that the CDSP would manage this as a manual process using existing resources.

The change proposal for this Modification is XRN 5602.

The CDSP Service Area applicable for this Modification is likely to be Service Area 3, however this would be discussed by the DSC Change Management Committee since the funding associated by default with Service

² <https://www.northerngasnetworks.co.uk/document-library/>

Area 3 is 90% Shipper /10% DNO (this can be changed by the relevant DSC Committee). Please note however there is no cost associated with this Change Proposal as set out in this Modification.

Workgroup Participants did not agree with this funding allocation and approach and noted it must be altered and agreed at DSC Change Management Committee.

Workgroup Participants welcomed the clarity afforded by the introduction of this information at this stage in the process.

Performance Assurance Considerations

No Performance Assurance considerations expected.

Panel Questions and initial representations and Workgroup Impact Assessment

1. This Modification gives the GDNs the power to dictate large DM sites that have booked capacity and not used it, which may be for a number of reasons – one of which currently may be due to increased gas costs. Where no relationship exists between the customer and the GDN, do Workgroup members think this is appropriate where GDN decisions may have adverse impacts on large sites such as I&C production sites and hospitals?

Proposer response:

In response to the queries raised by the Panel Member and some Workgroup Participants regarding hospitals please be advised that v2.0 of the Modification will have an additional criterion which excludes site where there is a risk to life. 'The site must not be a Priority Consumer Category A site (as defined by Secretary of State)'. Similarly, please note that reduction of capacity does not stop a site from exceeding their SOQ but introduces incentives for the capacity not to exceed the booking (e.g., Ratchet Regime).

Similarly, please note that reduction of capacity does not stop a site from exceeding their SOQ but introduces incentives for the capacity not to exceed the booking (e.g., Ratchet Regime).

Workgroup response:

Some Workgroup Participants acknowledged that the exclusion of certain Priority Consumer Category A sites had now been specifically made. Penalising certain sites through the penal Ratchet regime is not a good outcome for customers.

Workgroup noted that there are no new incentives, however the incentives (via Ratchets) come into play through the changes made by the Modification.

The Proposer noted there is a buffer provided in terms of a capacity amount above the SOQ.

Some Workgroup Participants noted that ratchet incentives have been in existence, but they will come into play at a lower level as a result of the changes in the Modification. Ratchets are a penalty mechanism. There is a soft landing for sites affected by this change.

2. The Modification directs that communications regarding this imposed capacity reduction are passed to the customer via the Shipper. What would happen if this communication route breaks down and the GDN imposes a capacity reduction on the customer without their knowledge? Would the GDN carry the legal liability for any losses incurred by the customer?

Proposer response:

There would be an obligation introduced into Code on the Shipper, and whilst Code should not be expected to have additional clauses to protect from the consequences of a party failing to meet its obligations, the Workgroup acknowledges the potential risk of impact to a 3rd party. The contract(s) between Shipper / (Supplier) and Site is a commercial arrangement, and it is already the responsibility of the Shipper to ensure that all UNC obligations are managed as part of this. Networks do not currently take responsibility for any liabilities incurred by a site should a Shipper fail in their obligations under Code, this would be no different.

Workgroup response:

Some Workgroup Participants noted the commercial nature of the relationship and thus questioned why the DN is being allowed to interfere with these arrangements and unilaterally change the nature of the relationship. The voluntary arrangement already in existence (SPOR report) process should be adequate.

In addition, this is a new and fundamental type of change which is affecting the SOQ. Until now it has not been possible to make unilateral changes.

The Proposer responded by confirming that the engagement via the SPOR process is poor and utilising the SPOR process has not been successful. The Modification is only aimed at areas of recognised constraint.

A Workgroup Participant noted that this indicates that customers continue to want the capacity and are happy to continue to pay to do so, thereby contributing to network costs.

3. What costs have been incurred by consumers as a result of the issue set out in the problem statement - costs of constraint and unnecessary reinforcement etc".

Proposer response:

Historically data has not been specifically retained around capacity bookings and usage for individual sites in areas where reinforcement has happened in the past, so this data cannot be provided. However, the Proposer is working with internal teams, and other networks, to assess the potential cost of reinforcement in the future for currently restrained areas of networks so this can potentially be provided at an aggregate level to the Authority on request.

Workgroup response:

Some Workgroup Participants asked to what extent do customers overpay against what they are actually using? They do so to protect their position. If this Modification is implemented the premium they are effectively paying is no longer protecting their position so may choose to change their strategy and thus book a lower amount of capacity. This will have a knock on effect on DN Revenue.

A Workgroup Participant asked how Shippers will know where the constraints are?

The Proposer confirmed that the sites will only be targeted where capacity has had to be rejected because of constraint. Releasing information around this is difficult and would potentially reveal sensitive information.

Some Workgroup Participants asked for confirmation as to whether the Modification is aimed at areas where capacity requested have been rejected or where they would require reinforcement (cost avoidance)?

The Proposer confirmed reinforcement is planned a significant period in advance. In some areas, reinforcement is not possible. Rejection would occur under current system constraints. A site would then be able to discuss potential reinforcement (and the costs and timescales pertinent to this).

A Workgroup Participant noted that the assumption that the gap in the revenue is filled immediately may not be factually correct. There is likely to be a time lag between capacity being taken from a User to be given to another User. It is likely that the incoming User would need to have made large Capital Investment and therefore there is likely to be a gap where revenue would be lost. This comment applies to Q5 below as well.

Industrial Consumer Representative questions

4. In a future when demand is predicted to fall, why would a GDN want to prevent a consumer from paying for capacity they are not using?

Proposer response:

This Modification is intended to free up held but unused 'sterilised' capacity, where other Users would benefit from it (i.e. where DNs had to reject capacity nominations or identify specific reinforcement costs through applications for new connections).

Workgroup response:

Workgroup Participants noted this area is covered by comments above under Q1.

5. With domestic demand under threat with the Government pushing heat pumps, the remaining gas consumers are already facing increases in GDN charges, why turn away revenue from large consumers who are prepared to pay for capacity they may not use?

Proposer response:

As above.

Workgroup response:

See comment under Q3.

6. At a time when many businesses are under threat of closure this modification sends out the wrong message to the industry. I would also suggest it should be a time to reassess demand requirements before making this step.

Proposer response:

In a time when businesses are under threat of closure holding unused capacity, in areas where capacity is not freely available, is potentially preventing existing businesses who want to expand or new businesses from being able to connect. Sterilising capacity and preventing this new growth from other consumers is what we are trying to prevent.

Workgroup response:

Workgroup Participant noted this is not a question but rather a statement. It is for Parties to pick up in their consultation responses.

7. As the Modification says, the GDN already has the power to discuss a site's usage with its owner. The GDN should use the power of persuasion and not be dictatorial in bringing about the change they require and ignoring their consumer's desire. The GDN has the power to advise the Shipper of the sites uses.

Proposer response:

Under the SPOR process it is the shipper that has the conversations with the site (not the GDN). From an NGN perspective, the SPOR process does not always result in engagement from every shipper, and those that do, do not always receive engagement from the site. In the limited cases where the process outcome is an agreement of a reduction in capacity, the actual capacity reduction rarely, if at all, occurs.

Workgroup response:

See response to Q2 and Q3.

A Workgroup Participant asked for clarification of the SPOR process and it was clarified that the SPOR process ends and then as a result the can Shipper voluntarily submit a capacity reduction.

8. I am opposed to giving the GDN the power to independently decide how much capacity a site can have.

Proposer response:

It is acknowledged this is a personal opinion, which, of course, everyone is entitled to. NGN does expect that this Modification will not be liked by everyone, however NGN appreciates all the views and comments received via workgroup and consultation.

Do note also that the Modification includes an appeal process that is intended to enable discussion amongst all parties involved. Hopefully the answers to the other questions posed will give some additional clarity and reassurance around the reason for this Modification and its limited scope.

Workgroup response:

Workgroup Participants noted there are different views which will undoubtedly be brought out in consultation responses.

9. Unless any reduction in capacity demand is immediately replaced by new consumers, charges for all remaining users will automatically increase to recover the GDN's allowed revenue.

Proposer response:

NGN anticipates that the sites will be in an area where there is little or no available capacity for other users. Part of the history of sites that will be considered is whether the DN has had nomination referrals that have had to be rejected due to unavailable capacity, therefore a take up of the capacity by other parties would be expected. History of new connection requests that resulted in specific reinforcement costs to the applicant, and then not taken up, will also be considered when assessing the potential sites that this may impact. This is the reason for the Modification, i.e. to free up unused capacity for others who require it, where there is currently none available.

NGN does however accept that this cannot be guaranteed, so whilst unlikely, there is the possibility that this could happen.

Workgroup response:

See response relating to the gap in revenue to Q3 and Q5.

10. Many consumers, including domestic, will have last used their maximum demand in March 2018, more than 4 years ago, which negates the three years contained in the modification.

Proposer response:

Making an assumption that this date is potentially an error, and that this refers to Covid, (1st lockdown was from March 2020): The Modification is drafted as '3 years with extra time taken into account for periods of exceptional circumstances', therefore counting both Covid and the energy crisis as exceptional circumstances would currently extend the period of assessment back to 3 years pre Covid, (to March 2017) which in reality is at least a 6 year assessment period).

It should also be noted that domestic sites are excluded from the Modification due to one of the specific criteria the site has to meet being 'That the Site is in Class 1'.

Workgroup response:

Workgroup Participants had no further comments.

11. Perhaps there is a role for the amended Demand Side Response product to encourage large consumers to reduce their firm capacity bookings with the balance made up by DSR. Alternately consumers requesting a new connection could be offered a non-firm capacity booking linked to DSR.

Proposer response:

The DSR is an NTS only product (i.e. not available to Distribution Networks) and is specifically around voluntary curtailment to reduce impact of a Gas Deficit Emergency on Firm Load Shedding requirements. This is therefore not relevant to UNC Modification 0818.

Workgroup response:

Workgroup Participants had no further comments.

Proposer’s general comments

This will impact some large I&C consumers, by reducing costs where capacity is held but not utilised. It should also allow new connections for consumers in the same ‘constrained’ areas of the network where a site has been identified, and successfully had capacity reduced under this process.

It potentially could result in savings for all end consumers by reducing the need for reinforcement, which is included in DNO pricing, where a successful capacity reduction removes the need for reinforcement of a Distribution Network in relation to maintaining 1 in 20 peak demand. It should be noted that charging is between DNO & Shipper User, and the impact of any changes to these costs, to the end consumers, would be subject to how the rest of the supply chain manage and process these.

Workgroup response:

Workgroup Participants referred to responses given above

7 Relevant Objectives

Impact of the Modification on the Transporters’ 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.	Positive
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

Relevant Objectives a) *efficient and economic operation of the pipe-line system* and c) *efficient discharge of the licensee’s obligations* are furthered due to the actual bookings closer reflecting the usage of the Distribution Network. Thereby allowing for more efficient and accurate modelling, and reducing potential risk in maintaining

1 in 20 peak demand. This should thereby decrease the need for unnecessary reinforcement of the network in order to maintain the 1 in 20 position as required by Gas Transporters Licence Standard Special Condition A9.

Relevant Objective *d) securing of effective competition (i) between relevant shippers* is furthered due to the release of unused capacity in 'restricted' areas, thereby facilitating increased competition by releasing this capacity to be available for other shippers to also request to utilise.

Workgroup Assessment of Relevant Objectives

Some Workgroup Participants disagreed and asserted that the Modification is negative for both Relevant Objectives a) and c):

In terms of Relevant Objective a), removing capacity from one party to give it to another is not as efficient as allowing a User to connect in a place where there is no constraint, all other things being equal.

Some Workgroup Participants disagreed with the argument put forward under Relevant Objective c), asserting that any reinforcement would be necessary not unnecessary.

This Modification is only addressing sites in areas where the network is constrained; not all situations where the SOQ is potentially set higher than needed are being targeted by this Modification. Therefore, the Modification would not address all situations where the modelling is not perceived to be accurate.

The Proposer noted that the sites targeted by this Modification are very specific and related only to capacity constrained locations.

Some Workgroup Participants noted that competition relates to an open market whereas this Modification allows for a DN to intervene into an open market without the User's consent; this is not positive for Relevant Objective d). It could be argued that the new User who wants to connect should access capacity at a better location where capacity is available and this would be better for competition (driving prices down) since the new User would pay additional capacity costs thereby increasing revenue to the DN.

Some Workgroup Participants noted that there is no impact on competition other than the very tenuous assertion that a new User could enter the market, though an argument could be made for the new User connecting in a different location.

8 Implementation

As this is an Authority Direction Modification it could be implemented as soon as directed by the Authority.

Workgroup Participants noted that if Authority approval is received prior to end April 2023, the Modification could be implemented such that the capacity reduction would take effect for the Gas Year beginning October 2023.

9 Legal Text

Legal Text has been provided by NGN and is published alongside this report.

The Workgroup has considered the Legal Text on 12 December 2022 and is satisfied that it meets the intent of the Solution.

Workgroup Assessment

The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Text Commentary

This is available here: <https://www.gasgovernance.co.uk/0818>

Text

This is available here: <https://www.gasgovernance.co.uk/0818>

10 Recommendations

Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this Modification.

Panel have also asked respondents to:

1. Do you have comments on the Modification's impact on sites that may be identified in the future?
2. Is the magnitude of the change proportionate to the need?
3. Do you have comments on the mechanism by which the capacity of an end-user consumer could be reduced?