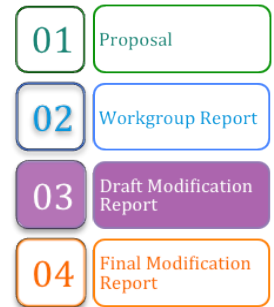


Stage 03: Draft Modification Report

0408S:

Moffat and Bacton Interconnectors: Changes to Agreements to Align to UNC Modification 0195AV.

What stage is this document in the process?



This modification seeks to amend and restate the "Moffat Ancillary Agreement", "the Connected Systems Agreement (GB – Ireland Interconnector)", the "CSEP Ancillary Agreement UK-Continent Interconnector" and the "Interconnection Agreement (UK-Continent Interconnector)" to amend references to interruptible capacity and associated processes to ensure consistency with the requirements of UNC Modification 0195AV "Introduction of Enduring NTS Exit Capacity Arrangements".



Responses invited by 30 March 2012.



High Impact: -



Medium Impact: -



Low Impact: National Grid NTS and Shippers

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About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 16 February 2012.

The close-out date for responses is 30 March 2012.

The Panel will consider the responses and agree whether or not this self-governance modification should be made.



3 Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is a self-governance modification.

Why Change?

As a result of UNC Modification 0195AV, from 01 October 2012, interruptible exit capacity will no longer exist on the NTS. It is necessary, therefore, that affected NTS Exit Points transition from Interruptible status to Firm. This modification has been raised to give effect to and to facilitate the envisaged transition for both of the existing GB interconnectors with physical exit capability, i.e. Moffat and Bacton I(UK) (the "Interconnectors").

Solution

Transportation arrangements between National Grid NTS and Shipper Users for the Interconnectors are primarily provided in the UNC, with some additional rules, specific to CSEPs, detailed in the relevant Ancillary Agreement (the "AA"), specifically the Moffat Ancillary Agreement (Amended and Restated CSEP Ancillary Agreement) GB-Ireland Interconnector, and the CSEP Ancillary Agreement UK-Continent Interconnector.

Additionally Network Exit Provisions are contained in the:

- Second Amendment and Restatement Agreement in respect of the Connected Systems Agreement (GB – Ireland Interconnector) between National Grid NTS and BGE (UK) Limited and
- Interconnection Agreement (UK-Continent Interconnector) between National Grid NTS and Interconnector (UK) Limited.

These Network Exit Provisions govern the way in which gas may be offtaken from the NTS at the CSEP and hence can have an effect on CSEP Users at the CSEP. These two agreements with the Interconnector Operators are referred to as the Connected System Agreements (the "CSAs").

It is necessary that these four agreements are updated to be consistent with UNC Modification 0195AV. The precise changes required, and the justification for using the UNC modification route, are detailed in Section 3.

Impacts and Costs

There will be no material impact since this brings the agreements in line with the UNC requirements, which will apply in any event. Implementation costs will be low, being the administrative cost of making changes to the agreements.

Implementation

As this is a self-governance modification, implementation could be 16 business days after a Modification Panel decision to implement.

The Case for Change

By facilitating bringing the agreements in line with the UNC through the most efficient available mechanism, relevant objective (f) "Promotion of efficiency in the implementation and administration of the Code" would be better facilitated by implementation of this modification.

Recommendation

All parties are invited to consider whether they wish to submit views regarding this self-governance modification.

2 Why Change?



What is a CSEP?

A CSEP is a Connected System Exit Point (see UNC TPD Section A3.3). All Interconnectors are CSEPs.

As a result of UNC Modification 0195AV, from 01 October 2012, Interruptible exit capacity will no longer exist on the NTS. It is necessary, therefore, that affected NTS Exit Points transition from Interruptible status to Firm. This modification has been raised to give effect to and to facilitate the envisaged transition for both of the existing GB interconnectors with physical exit capability, i.e. Moffat and Bacton I(UK) (the "Interconnectors").

Transportation arrangements between National Grid NTS and Shipper Users for the Interconnectors are provided through the relevant Ancillary Agreement (the "AA"), specifically:

- the Moffat Ancillary Agreement (Amended and Restated CSEP Ancillary Agreement) GB-Ireland Interconnector (the "Moffat AA"), and
- the CSEP Ancillary Agreement UK-Continent Interconnector (the "Bacton AA").

Currently Users wishing to offtake gas from the NTS at the Interconnectors must accede to the relevant AA. The AA between National Grid NTS and CSEP Users details specific requirements of CSEP Users at these exit points primarily for the purposes of capacity bookings, energy allocations, and gas flow nominations. Modification 0195AV introduced capacity booking processes for all NTS Exit Points including interconnectors, hence the AAs must be revised to remove these out-of-date rules and processes.

The AAs are part of UNC for the purposes of enabling such Agreements to be modified.

Additionally Network Exit Provisions are contained in the:

- Second Amendment and Restatement Agreement in respect of the Connected Systems Agreement (GB – Ireland Interconnector) between National Grid NTS and BGE (UK) Limited, (the "Moffat CSA"); and
- Interconnection Agreement (UK-Continent Interconnector) between National Grid NTS and Interconnector (UK) Limited, (the "Bacton CSA").

These Network Exit Provisions govern the way in which gas may be offtaken from the NTS at the CSEP and hence can have an effect on CSEP Users at the CSEP. Each of these two agreements with the Interconnector Operators is referred to as the Connected System Agreement ("CSA").

In order to ensure consistency with the Enduring Exit Regime, changes are required to both the Ancillary Agreements and to the Network Exit Provisions contained in the CSAs. Changes to the AAs primarily relate to capacity booking and nominations and allocations, but the schedule covering General Network Exit Provisions also requires updating.

The opportunity is being taken, whilst updating the AAs and CSAs, to make additional housekeeping changes, such as replacement of "Transco" with "National Grid Gas" and updating UNC references.

3 Solution

1. Moffat AA and Bacton CSEP AA changes.

It is proposed that the current Moffat AA and Bacton AA are amended and restated.

The proposed amendments can be seen in the mark-up drafts of the two agreements, which are a part of this Modification Proposal, but are provided separate from this document. The proposed changes to the AAs are summarised below¹:

Changes apply to both AAs except where specifically identified:

- Clause 1.4 deleted. The CSEP is no longer "treated as a Firm and an Interruptible CSEP".
- Clause 2.2 amended. Reference to other paragraphs/schedules containing capacity rules is no longer relevant.
- Clause 3.4(c) amended. Reference to capacity rules in Schedule 3 is no longer relevant.
- Clause 3.7(b) amended. Reference to capacity amended to "Flat" capacity.
- Clause 5.1 amended. Reference to "Firm CSEP" amended to "CSEP" and UNC references updated.
- Clause 5.2 deleted. Refers to Schedule 3. Schedule 3 "Capacity Rules" deleted as rules introduced through Mod 195AV now apply.
- Clause 6 "Output Nominations and Exit Allocations" amended. Reference to "Firm and/or Interruptible CSEP" amended to "CSEP". Exit allocation process modified through removal of references to interruptible capacity and interruption quantities.
- Clause 7 "Interruptible CSEP" deleted. Covers interruption processes and is no longer relevant.
- Clause 8.4 (Moffat AA), clause 8.3 (Bacton AA) amended. Deletion of references to "Interruption Notices". However, "Curtailed Notices" has been retained.
- Clause 9.5 (Moffat AA only) deleted. Refers to interruption notice and associated processes and is no longer relevant.
- Clause 11 (Moffat AA), clause 10 (Bacton AA) amended. Removal of reference to capacity applications being communicated by fax. These will now be via gemini.
- Schedule 2 amended. Updating of UNC references to align to Mod 195AV (and other mods as appropriate). Deleted cross-reference to clauses detailing interruptible processes.
- Schedule 3 deleted. Revised "Capacity Rules" introduced into UNC through Mod 195AV. Related annexes B-1 and B-2 deleted.
- Schedule 4 "Stranraer" (Moffat AA only) amended. Deletion of reference to "Downstream Capacity Holder", NGG deemed capacity holding, and interruption processes which are no longer relevant.

In addition to the changes detailed above, National Grid NTS is also taking the opportunity to make some further amendments to the AAs. These changes are relatively minor in nature and/or reflect previous changes to UNC/Licence.

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¹ Until the CSAs have been agreed with the Interconnector Operators there is potential for changes to the CSAs having a knock on effect on the AAs.

- General. UNC and Licence references have been updated to reflect the current numbering.
- General. Correction of minor typographical errors and omissions.
- General. Name changes from BG / Transco plc to National Grid Gas plc and update of company details
- General. Reference to Days amended to Business Days (in relation to user accession and user termination / exit arrangements) to be consistent with other clauses. "Days" retained where applicable to more operational processes, e.g. determining allocations.
- Moffat AA only: Recital C deleted. Superfluous, deleted for consistency with Bacton AA.
- Moffat AA only: clause 1.1 definition of Authority deleted. Superfluous.
- Bacton AA only: General. Name changes, "Director" to "Authority"
- Bacton AA only: clause 1.1 definitions of "CSEP User" updated and simplified, "Effective Date" added.
- Bacton AA only: clause 3.4(a) and (c). Notice periods for accession to the agreement revised to be consistent with the Moffat AA.
- Bacton AA only: clause 4.1 and 4.3. Revised to be consistent with the Moffat AA.
- Bacton AA only: clause 8.1 updated. "Flexibility Bid" replaced by "Locational Market Transaction" and clause updated.
- Bacton AA only: clauses 11 to 14. RTPA clause deleted as no longer applicable. Boiler plate clauses added for consistency with Moffat AA.
- Bacton AA only: Annex A – Accession Agreement amended. Removal of references to the RTPA provisions which are no longer required.

For clarity, the proposed changes will be limited to those needed to facilitate the introduction of exit reform at Moffat and Bacton Interconnectors and to remove errors and omissions that have arisen following earlier external changes, but not to introduce any additional changes to the existing provisions.

2. Modification Proposal requirements.

CSEP Ancillary Agreement and CSEP Users

Given the potential effects on CSEP Users of the proposed changes, National Grid NTS believes that a UNC Modification Proposal is the correct vehicle for introducing them.

Please note however, that the general rule in TPD, Section V1.1.4 (see below), is that an Ancillary Agreement may only be amended by agreement of the Transporter and the User(s) that are parties, and cannot be modified under the Modification Rules.

"1.1.4 An Ancillary Agreement may be amended by agreement of the Transporter and the User(s) party to that Agreement and not otherwise; and accordingly an Ancillary Agreement shall not be subject to modification pursuant to the Modification Rules (but without prejudice to any modification of any provisions of the Code which apply to or are incorporated into such Agreement)."

However, UNC TPD J6.6.2 (see below) states that a CSEP Ancillary Agreement is part of the Code to enable it to be modified under the Modification Rules.

"6.6.2 A CSEP Ancillary Agreement shall be deemed to be a part of the Code for the purposes of enabling such Agreement to be modified pursuant to the Modification Rules."

This is supported by Clause 1.3 (see below) of the Moffat AA, which states that it may be modified pursuant to the Modification Rules:

"1.3 This Agreement is a Network Code Ancillary Agreement for the purposes of Section V1.1, and (in accordance with Section J6.6.2) may be modified pursuant to the Modification Rules."

This is also supported by Clause 1.3 (see below) of the Bacton AA which states that it may be modified pursuant to the Modification Rules:

"1.3 This Agreement is a Network Code Ancillary Agreement for the purposes of Section V1.3, and (in accordance with Section J5.9.2) may be modified pursuant to the Modification Rules." NB: If this Modification Proposal is implemented, the UNC references in this clause will be updated to be consistent with the Moffat AA.

As such it is the view of National Grid NTS that amendment to the Moffat AA and to the Bacton AA is possible by this Modification Proposal.

The details of all the changes proposed to the AAs will be provided as Suggested Text in the form of mark-up versions of the AAs included as part of this Modification Proposal.

The AAs provided will be treated as the final legal text for the purposes of this UNC Modification and implemented for the purposes of Code only by implementation of this Modification Proposal.

3. Moffat and Bacton Connected Systems Agreement (CSA) changes.

It is proposed that the current Moffat CSA and Bacton CSA are amended and restated to ensure consistency with the changes introduced through Modification 0195AV.

- **To be provided following agreement with the Interconnector Operators.**

In addition to the proposed changes detailed above, National Grid NTS also proposes taking the opportunity to make some further minor amendments;

- Updating of Licence and UNC references.
- Correction of typographical errors and general updates.
- Clarification of technical processes and parameters between operators.

4. Modification Proposal requirements.

Network Exit Provision and CSEP Users

The proposed changes to the CSAs relate primarily to the Network Exit Provisions.

In accordance with UNC:

Section J6.4 states:

"6.4 Amendment of Network Exit Provisions

6.4.1 The Transporter will not agree with the Connected System Operator to amend any provision of CSEP Network Exit Provisions which governs or otherwise is

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directly relevant to the arrangements between the Transporter and Users pursuant to the Code except in accordance with Section J4.3.6.”

These CSEP Network Exit Provisions are contained in the CSA.

Section J4.3.6 states:

“4.3.6 The Transporter will not agree to a modification of the Network Exit Provisions applicable to a System Exit Point except:

- (a) in relation to increases to any Permitted Ranges contained in the Network Exit Provisions,
- (b) in relation to the Network Exit Provisions (other than increases to the Permitted Ranges):
 - (i) with the consent in writing of all Users who are the Registered Users or CSEP Users (as the case may be) at the date when such amendment is to take effect at the System Exit Point; or
 - (ii) in accordance with paragraph 4.3.7.”

Section J4.3.7 states:

“4.3.7 Where the Transporter and the relevant consumer or Connected System Operator (as the case may be) have agreed (subject to a Code Modification) upon an amendment to any such Network Exit Provisions, such Network Exit Provisions may be amended for the purposes of the Code by way of Code Modification pursuant to the Modification Rules.”

Given the frequency with which the Registered Users change at Moffat and Bacton Interconnectors, the potential effects on CSEP Users of these proposed changes, and in the interest of transparency, National Grid NTS believes that a UNC Modification Proposal is the appropriate vehicle for introducing them.

The details of all the changes proposed will be agreed between National Grid NTS and BGE (UK) and Interconnector (UK). When the revised CSAs have been signed these will be treated as the final legal text for the purposes of this UNC Modification Proposal and implemented for the purposes of Code only by implementation of this Modification Proposal. Any changes to the AAs that are required as a result of changes to the CSA will be treated in the same way.

4 Relevant Objectives

Implementation will better facilitate the achievement of **relevant objective f**.

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
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.	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

(f) Promotion of efficiency in the implementation and administration of the Code

By facilitating bringing the relevant ancillary agreements in line with the UNC through the most efficient available mechanism, relevant objective (f) "Promotion of efficiency in the implementation and administration of the Code" would be better facilitated by implementation of this modification.

5 Impacts and Costs

Consideration of Wider Industry Impacts

Implementation would be consistent with the wider impacts arising as a result of the implementation of Modification 0195AV.

Costs

Indicative industry costs – User Pays
Classification of the modification as User Pays or not and justification for classification
Not User Pays because no User Pays service is to be introduced nor amended, and there will be no change to central systems.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Not applicable.
Proposed charge(s) for application of Users Pays charges to Shippers
Not applicable.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
Not applicable.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> None
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Amendment of the relevant ancillary agreements will require some administrative effort.
Development, capital and operating costs	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Consistency between the UNC and relevant ancillary agreements could reduce contractual risk.

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:
<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Users	
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> None
Recovery of costs	<ul style="list-style-type: none"> None
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Consistency between the UNC and relevant ancillary agreements could reduce contractual risk
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> The relevant ancillary agreements will require amendment.

Impact on Code	
Code section	Potential impact
None	None

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	<ul style="list-style-type: none"> The CSAs will be amended as detailed in Section 3, above.
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	<ul style="list-style-type: none"> The CSAs will be amended as detailed in Section 3, above.

Impact on UNC Related Documents and Other Referenced Documents	
Storage Connection Agreement (TPD R1.3.1)	<ul style="list-style-type: none"> • None
UK Link Manual (TPD U1.4)	<ul style="list-style-type: none"> • None
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> • None
Network Code Validation Rules (TPD V12)	<ul style="list-style-type: none"> • None
ECQ Methodology (TPD V12)	<ul style="list-style-type: none"> • None
Measurement Error Notification Guidelines (TPD V12)	<ul style="list-style-type: none"> • None
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> • None
Uniform Network Code Standards of Service (Various)	<ul style="list-style-type: none"> • None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> • None
Gas Transporter Licence	<ul style="list-style-type: none"> • None

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> • None
Operation of the Total System	<ul style="list-style-type: none"> • None
Industry fragmentation	<ul style="list-style-type: none"> • None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> • The contractual arrangements between National Grid NTS and Interconnector Operators in respect of flow allocations and curtailment of interruptible capacity would be amended.

6 Implementation

As self-governance procedures are proposed, implementation could be 16 business days after a Modification Panel decision to implement.

7 The Case for Change

None in addition to that identified above.

8 Legal Text

Explanatory Note

This modification states that:

- By UNC TPD J6.6.2, a CSEP Ancillary Agreement is part of the Code to enable it to be modified under the Modification Rules.
- By UNC TPD J4.3.7, where the Transporter and the relevant consumer or Connected System Operator (as the case may be) have agreed (subject to a Code Modification) upon an amendment to any such Network Exit Provisions, such Network Exit Provisions may be amended for the purposes of the Code by way of Code Modification pursuant to the Modification Rules.
- The details of all the changes proposed in respect of the CSEP Ancillary Agreements and the CSA are (or will be) provided as Suggested Text.

For clarification, this is not Suggested Text to amend Uniform Network Code but it is submitted as the Suggested Text, which is required to modify the existing CSEP Ancillary Agreements and CSAs. Therefore this Suggested Text is being submitted as amendments to the existing CSEP Ancillary Agreements and CSAs. For ease of reference these amended documents are (or will be) provided with revision markings to show the amendments.

9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this self-governance modification.

The close-out date for responses is **30 March 2012**, which should be sent to enquiries@gasgovernance.co.uk.

A response template, which you may wish to use, is at www.gasgovernance.co.uk/0408.



Consultation Ends

On 30 March 2012

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