

Stage 01: Proposal

What stage is this document in the process?

0373:

Governance of NTS connection processes

01

Proposal

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

Incorporates NTS connection processes/steps into the UNC



The Proposer recommends that this Proposal is sent for development in a UNC Workgroup



High Impact:

NTS entry and exit developers and shippers, National Grid NTS

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About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 21 April 2011. The Panel will consider the Proposer's recommendation, and agree whether this modification should proceed to consultation or be referred to a Workgroup for assessment.



3 **Any questions?**

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1 Summary

Is this a Self Governance Modification

It is not proposed that this Proposal is treated as a Self Governance Modification as it is likely to impact on competition between the commercial activities of shippers.

Why Change?

Currently the arrangements and processes surrounding the physical connection, or enhancement of an existing connection of an offtake or an input to National Grid's NTS pipeline system is ad hoc in nature and not subject to established timescales, milestones or costs. The commercial arrangements concerning the booking of NTS entry/exit capacity are subject to provisions contained within the UNC. The processes which occur outside of the UNC, which we term "physical connection enabling works", incorporate a number of steps, listed below:

- Initial discussions between parties;
- Feasibility study;
- Design & Build – Conceptual Study; and
- Design & Build – Detailed design and construction phase.

(note: there may be additional steps which have not been identified)

In addition to these steps, other activities must be completed, although they are not directly related to the construction of the connection (and any additional works which may be carried out in order to accommodate the connection). These activities include, but may not be limited to:

- Establishment of an exit/entry point plus revenue drivers; and
- Finalisation of a connection agreement.

The current lack of formal governance surrounding these activities and processes creates uncertainty in timescales and costs for connecting parties which are detrimental to investment/engineering plans, third party costs and the economic viability of projects.

Solution

Incorporation of the steps and processes identified above, and any others related to the delivery of a connection into the UNC, including the introduction of a formal connection "offer" process. Where appropriate, pre-determined timelines and costs should be attributed to each step and process.

Impacts & Costs

Costs are expected to be minimal and not paid for by Users.

There are numerous positive impacts relating to reduction in costs/risk for connecting parties in the following areas:

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- Administration of overall development downstream/upstream of the connection;
- Development and capital costs associated with the connecting facility/pipeline;
and
- Third party contractual risks faced by the connecting party.

The incorporation of the processes in to the UNC will mean that they become subject to the governance and regulatory arrangements underpinning the UNC.

Implementation

An implementation date of 1st April 2012 is proposed.

The Case for Change

At the highest level the proposal creates certainty around timescales and costs associated with achieving a physical NTS connection, or enhancement of an already existing NTS connection. The proposal will better facilitate Relevant Objectives b, c and d as it will lead to greater transparency, non-discrimination and competition. In addition, where the connection pertains to a connected system, owned by National Grid NTS, it will improve co-ordination between systems.

Recommendations

The proposal should be assessed further in a workgroup in order to work up the scope of activities and the related timescales and costs.

2 Why Change?

Currently, there are effectively two processes which, theoretically should run in parallel, in relation to the achievement of a physical connection, or the enhancement of an already existing connection to the NTS, be it a direct offtake/input or CSEP. The UNC process relates to the securing of capacity rights on the NTS while the, what we will term, the “physical connection enabling works” process concerning the engineering design and construction arrangements, is independent of the UNC and the subject of a number of bilateral agreements between National Grid NTS and the relevant counterparty.

The physical connection enabling process is managed by National Grid NTS and, as such, is not subject to prescribed timescales, standard costing, or service levels. As a result, the requesting party – shipper or developer – is uncertain of the costs it might incur in certain instances and the timing of the delivery of certain outputs which contribute to the overall process.

In very high-level terms, a typical physical connection enabling works process will likely consist of the following steps, although this may vary depending on the complexity of the connection:

- Initial discussions between parties, including the provision of high-level information regarding the connection by the requesting party; and
- A feasibility study may be carried out at the request of the requesting party or National Grid NTS. The main purpose of the study is to establish options for connection and / or identify what level of works National Grid NTS will most likely need to carry out, beyond the minimum connection, to accommodate the connection. The price of the feasibility study varies and is determined by National Grid NTS, subject to the relevant Connection Charging Statement and there is no prescribed timescale by which this study should be completed; and
- Following the execution of a Design and Build Agreement, National Grid NTS will carry out a Conceptual Design Study. The main purpose of the study is to scope out the overall works to be carried out, including an estimate of the costs to be incurred by the requesting party. The price of the Conceptual Design Study varies and is determined by National Grid NTS, subject to the relevant Connection Charging Statement and there is no prescribed timescale by which this study should be completed; and
- Following the completion of the Conceptual Design Study, the requesting party may terminate the agreement and not proceed to the next stage of the process. In the event that a termination is not forthcoming, National Grid NTS will invoice the requesting party for a portion of the estimated costs laid out in the Conceptual Design Study and commence the detailed design and construction phase.

Further to the processes detailed above two other processes are critical to the completion of an operational connection:

- In the event that the connection is a new connection requiring a new entry/exit point to be recorded in the NTS Gas Transporter Licence then a separate process must be initiated by National Grid NTS to establish the entry/exit point and agree

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the necessary revenue drivers with Ofgem to permit the UNC capacity booking process to commence; and

- a Network Entry Agreement, Network Exit Agreement, or in the case of a storage connection, a Storage Connection Agreement must be executed. At the highest level, these agreements lay out operational obligations and verification of asset ownership.

It is clear, that beyond the fairly mechanical processes set out in the UNC in relation to securing capacity rights, the processes which are external to the UNC lack structure and governance. Given the control exerted by National Grid NTS in relation to the carrying out of these tasks, requesting parties may become frustrated by the lack of certainty in costs, timescales and the relevance and value of some of the existing reports / processes. In the event that the processes carried out by National Grid NTS are not achieved in timescales not unreasonably required by the requesting party, there may be unexpected delays beyond the desired date of connection. Late connections can undermine the economics of a planned project for the following reasons:

- The connection process will likely be one part of a significant engineering programme and any delays in the connection will likely have implications on other aspects of the engineering programme resulting in additional costs being incurred by the developer;
- the date of connection may have strategic value and any delay may undermine the value ascribed to the connecting facility(ies);
- other costs may be incurred by the relevant parties, such as; a need to enter into alternative commercial arrangements to account for the unavailability of the connecting facility; deferment of the purchase of commissioning gas/cushion gas; extension of operation and maintenance contracts, etc.

3 Solution

In order to provide for greater certainty in terms of delivery of those outputs detailed in Section 2 it is proposed that the UNC is modified to accommodate some, or all of the following as part of a new, formal NTS connection “offer” process:

- Feasibility Studies;
- Design and Build Agreement – including provision for the timing and cost of Conceptual Design Studies;
- Network Entry/Exit Agreements and Storage Connection Agreements;
- Establishment of a Entry/Exit Point within the GT Licence and the request for applicable revenue drivers.

Note: there may be additional processes/steps which should be included in this list, but have not been identified by the Proposer. The development process should also consider the value of existing processes/steps and consider whether there are opportunities for improvement (e.g. whether the existing Conceptual Design Study report provides developers / shippers with the information they need).

Attached to these processes, will be a timeline which should be applied in all circumstances, understanding that certain provisions may need to be made to accommodate “complex” connections. Furthermore and where appropriate, it is proposed that standard costs should be assigned to the delivery of certain services; e.g. Feasibility Studies and Conceptual Design Studies.

The scoping of the full suite of processes to be incorporated within the proposed change and the timescales and costs associated with them will be identified by the industry.

4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objectives b, c and d.**

Proposer's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	No
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.	Yes
c) Efficient discharge of the licensee's obligations.	Yes
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Yes
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	No
f) Promotion of efficiency in the implementation and administration of the Code	No

In the event that the connection is one which relates to a CSEP, then codification of the arrangements which require National Grid NTS to work to designated timescales will necessarily lead to greater certainty in relation to the full build programme for the developer of the connecting pipeline. In turn, this should lead to efficiencies in achieving the necessary consents as well as the ordering and construction of the connecting pipeline. The effect is better facilitation of Relevant Objective (b) assuming that in some cases the connecting pipeline system falls under the ownership of a gas transporter.

Transparency and consistency in the treatment of connecting offtakes will help ensure that each connecting party is dealt with in a non-discriminatory manner. Currently, the connection process is managed by National Grid NTS in accordance with timescales it determines, which may mean that it would prefer to apply more aggressive timescales to certain connections over others. The codification of the arrangements will remove any ambiguity and require that all connections are treated in the same manner. In terms of better facilitating Relevant Objective (c) this will ensure that no shipper gains any unfair advantage.

For those reasons stated above regarding discrimination it is clear that competition between shippers will be enhanced providing for better facilitation of Relevant

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Objective (d). Furthermore, it is hoped, more generally, that if National Grid NTS is subject to contracted timescales then this enhanced certainty will result in projects (e.g. new gas storage) being brought to market in a more timely fashion. In turn, this will enhance competition in a number of cases, for example where the connection is an entry or storage connection it will likely reinforce the relevant shipper's portfolio position. Finally, greater certainty in relation to timescales and costs will better inform individual shipper decision making processes, in terms of project feasibility, which by its very nature will limit development costs and create efficiencies. Efficiency in decision making and in the deployment of capital is essential in the creation, or fulfilment of a competitive market.

5 Impacts and Costs

Costs

It is anticipated that this is not a User Pays Proposal as the costs of implementation will relate, generally, to the internal processes and practices employed by National Grid NTS to ensure compliance with the UNC obligations.

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">• Establishment of new processes to ensure compliance with UNC obligations in relation to milestones and timescales.
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">• Reduce costs associated with managing internal administration of the processes due to greater clarity in terms of the connection process.
Development, capital and operating costs	<ul style="list-style-type: none">• Reduce development and capital costs associated with the connecting facility and/or pipeline since processes can be better aligned with those applied by National Grid NTS.

Impact on Users	
Contractual risks	<ul style="list-style-type: none"> Reduces contractual risks with third parties involved in the downstream development of the facility and/or pipeline since the potential removal of delays in National Grid NTS' lead process will ensure contractual obligations with third parties can be better structured and managed; e.g. limit risk of contract cancellation and associated penalties.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Proper contractualisation of processes which sit outside of any formal contractual structures. Allows for regulatory oversight of these matters given the proposed inclusion in the UNC.



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.com/networkcodearchive/551-575/>

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"> Potential impact if standard costs agreed
Contractual risks	<ul style="list-style-type: none"> Contractualisation of non-contracted processes
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> None

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Impact on Code	
Code section	Potential impact
To be determined through development	To be determined through development

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	Enhance security of supply as more certainty for developers/shippers in relation to connection which should provide confidence and efficiency in third party investments (e.g. in new gas storage).

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Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	Positive impact for those parties downstream/upstream of connection and overall for consumers as connections are made in a timely and coordinated manner.

6 Implementation

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7 The Case for Change

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

Advantages

- Consistency in treatment of new or enhanced connection applications.
- Certainty for project developers in terms of timescales and costs associated with the physical connection.
- Consistency with the commercial activities currently detailed in the UNC i.e. the physical connection process becomes more closely linked with the capacity booking process.

Disadvantages

- None identified

8 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0373 progress to Workgroup for assessment.

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