



Beverly Ord

BP Energy
Witan Gate House
500-600 Witan Gate
Milton Keynes
MK9 1ES

Julian Majdanski
UNC Distribution Workstream Manager
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

Direct: 01206 752019
Mobile: 07799 740739
Email: ordba@BP.com

Dear Julian,

[UNC Modification Reference Number 0005\(0726\) - Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the Relevant Transporter](#)

BP has reviewed the Final Modification Report received on the 2nd September 2005 and has some concerns over the treatment of responses in the document. In accordance with the email we have until 6th September 2005 to make any representations over the content of the document.

We would be grateful if our concerns could be made known to the members of the Modification Panel and Ofgem.

For ease of reference we have cut and pasted the relevant section of text from the Report and then added our comments accordingly: -

“All Transporters submitting representations highlighted their concerns regarding the economic and efficient operation of the system. In this respect Transporters indicated they did not feel that implementation of the Modification Proposal would facilitate the relevant objectives. Transco stated that there was a need to, *“consider whether reinforcement of the Transporters System or investment in compression equipment by the consumer meets the best and most efficient ongoing method of operating the System in the interests of consumers”*. It was Transco’s stated opinion *“that this process is dynamic and should be maintained under constant review. This would at all times take into consideration the economic operation of the pipeline system in the interests of the industry”*.

[BP Comment: - We believe the Distribution workstream discussed the agreement being finite i.e. it would be end-dated.](#)

“Scotia Gas Networks (SGN) expressed a similar view to Transco. In its representation it commented that it did *“not believe it would better facilitate achievement of relevant objectives”*.

BP Energy is a trading name of
BP Gas Marketing Ltd
Registered in England and Wales No. 908982
Registered Office:
Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

BP Energy is a trading name of
BP Oil UK Ltd
Registered in England and Wales No. 446915
Registered Office:
Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

It believed "the proposal as it stands could in fact reduce a Transporters ability to operate the network in an economic and efficient manner and could result in significant additional operating and investment costs

BP Comment: - We question what evidence is provided to support this case and to substantiate the "significant additional operating and investment costs".

In addition, SGN stated that it *"did not believe this is in the interest of competition"* and *believed "it could be argued it is unduly discriminatory"*.

BP Comment: - This contradicts SGN's statement regarding the proposal being an obligation. We question how an obligation can be discriminatory, let alone unduly discriminatory.

BP Comment: - We note that there is no reference to the lack of supporting information as noted elsewhere in the report where unsubstantiated claims are made.

All three Transporters that submitted representations referred to the existing provisions available in Section J of the Uniform Network Code, and SGN in its response stated *"Transco has always been clear that unless an Ancillary Agreement exists there is no obligation on the Transporter to provide enhanced pressure services"*.

BP Comment: - We believe we are proposing a "form" of ancillary agreement and a clear route to achieve such an agreement. Further, we question how this sits with the agreement implicit in Transco setting or agreeing to the set point of the meter governor, and the undertaking of Site Works to allow the site to be supplied by gas at an elevated pressure.

SGN in voicing its concerns on the operation of the system stated, *"The suggestion that any existing arrangements, irrespective of circumstances, whether formal or informal, should automatically become a permanent obligation on the Transporter at no additional cost is unreasonable."*

BP Comment: - BP is not proposing this solution: we set out a very clear and formal process for assessing existing configurations, and for new arrangements a clear process is set out that is based on the current site works arrangements. These arrangements already ensure full recovery of costs from the party who benefits from such a request (including reinforcement costs).

NGT have currently proposed modifications that seek to provide additional timescales for the creation of entry capacity in excess of the 3 year project lead time enshrined in the capacity auctions. It would be reasonable for a similar timescale to be applied to the withdrawal of the pressure guarantee to allow the end consumer sufficient time to develop alternative arrangements.

Firstly, and quite importantly, it is not clear what is meant by normal operating conditions. Under what circumstances would it be deemed reasonable for the Transporter not to meet the enhanced pressure commitment? Doesn't the process set out above provide this clarity? There is no definition of normal operating conditions and the potential exceptions have not been considered in the proposal –

BP Comment: - We dispute this since the existing GT1 procedure, set out by the Transporters, provides this clarity over all operating conditions.

NGN stated, *"In order that the modification proposal could be implemented, the NGN system would need to operate at a constant higher pressure in a number of locations, to ensure the grandfather rights clause referred to in the proposal was honoured"*.

BP Comment: - We do not understand this statement as sites with grandfather rights are already receiving elevated pressures with the networks being operated in their current manner. If they were not they would be suffering from problems associated with low gas

pressures. Thus, it is wrong to state that additional pressures would be needed to provide the present conditions.

This point is an clear engineering point and should have been highlighted by the SME in carrying out their duties objectively in line with their Code of Practice.

In its representations Transco also voiced concerns over the potential complexity needed in Network Analysis. It stated, " Transco is concerned about the potential complexity needed in Network Analysis models to flag 'elevated pressure' agreements. This is relevant to network analysis for reinforcement, operational planning for mains replacement and detailed analysis for non-routine operations. The presence of 'guaranteed' elevated pressures would add enormous complexity to the process and likely IS expenditure to deliver a sophisticated system.

BP Comment: - We do not understand this statement as sites with grandfather rights are already receiving elevated pressures with the networks being operated in their current manner. It is therefore logical to assume that Transco currently manage such arrangements.

Operationally, settings of Pressure Regulators would need a great deal of thought to ensure set point pressures are maintained in the mid point of a network - particularly in multi-fed networks where it is easy to 'back out' governors. Closed loop control systems would similarly be affected and need modification.

BP Comment: - For grandfather right sites this must already be the case otherwise Transco could be viewed as indicating that they may be operating their network unsafely. It appears to be a perception in this response that we are proposing something "new" and not the continuation and formalisation of long-held arrangements.

Additionally, average system pressures are used to derive shrinkage levels and above average pressures, cause increased public reported escapes (PREs). Maintenance of higher system pressures could increase network levels of risk (consequences of regulator failure and over gassing leading to CO issues - increased likelihood of gas ingress following a fracture, etc). Transco's opinion is that any 'fixed guarantee' as in the 'grandfather rights' scenario may cause far more cost to maintain than would be immediately apparent from incremental reinforcement concerns".

BP Comment: - Nothing in the proposal would require any of the Transporters' network equipment to operate outside its design criteria. If a Transporter truly believes that their equipment could not operate safely across the whole of its design criteria pressure range they should remove or replace this equipment under existing HSE legislation. We strongly object to the suggestion that our proposal could increase the level of risk associated with operating the system and believe instead that it would bring a degree of control and formality that would aid the safe management of the system.

All Transporters submitting representations considered that implementation of this Proposal would have significant implications for development and capital costs and operating costs. In its submission Transco stated that it "*believes that this Modification Proposal is wholly inconsistent with its obligations as a Transporter to operate and maintain its pipeline system economically and efficiently.*

BP Comment: – If this is the case we question what Transporters are currently doing in providing elevated pressure both formally and informally. In our view this demonstrates that they are already optimising their Network operation.

The circumstances which dictate the need for System reinforcement will be unique for each site.

BP Comment: - The Site Works processes currently determine where specific reinforcement costs are required as part of the cost to the consumer to provide their connection.

Therefore a site-specific assessment is required, increasing the cost of processing the siteworks request above a 'normal' enquiry.

BP Comment: - This is not the case since the existing process already allows for elevated pressure costs to be assessed and charged as part of the current Site Works process.

Additionally, work is needed to evaluate customer downstream options in order to ensure that the most efficient 'least industry cost' solution is delivered".

BP comment: - We do not understand this statement since it is the Transporter's role to quote for the delivery to the ECV based on the peak load and pressure requested at the ECV. It is the consumer's decision as to whether the cost is tenable against an on-site solution. Furthermore, Transco has always given us to understand that they have no interest beyond the ECV.

NGN while not quantifying the potential costs of implementing the proposal stated that "DNs would have to engineer solutions to know that the pressure required by Users was in fact guaranteed as the Modification proposes. Such costs would in our view be prohibitively expensive and would need to be weighed against the ultimate pass through costs to consumers".

BP comment: - For new requests it is a commercial decision for the customer as to whether they choose to bear such costs.

Transco expressed concerns with this Proposal as it saw implementation having an impact on Cross Subsidy. Transco stated, "Transporters would be obliged to maintain elevated pressures under some form of indefinite guarantee.

BP comment: - Please note our previous point that we are willing for agreements to be finite and with an agreed mechanism for removing the pressure guarantee.

This would result in some customers being cross subsidised because where investment was required to maintain the elevated pressure (under the 'grandfather rights' scenario). That consumer could not be charged. Instead the consumer population would have to fund the work.

BP comment: We note that these costs have already been met by the customer if the site was connected under the Site Works process.

BP comment: The appendix of examples of financial charges relates to aggregate loads and pressures delivered to a downstream network through a CSEP NExA rather than a scenario of an existing site operating on elevated pressure or a new site requesting elevated pressure. If these are new requests then the specific reinforcement costs would be determined as part of the siteworks process and the end consumer would then decide if it is economic to proceed with the siteworks. Where the end consumer proceeds there would be full recovery of the specific reinforcement costs and thus no cross subsidy as suggested.

Transco and SGN in their representations disputed that the setting of the pressure regulator constituted an agreement and provided the following in support of their position.

Transco set their argument out as follows:

" Definition of agreement

Transco accepts that it may have previously set and sealed the Pressure Regulator to reflect an elevated pressure in the consumer's interests. It is also possible that the consumer may have commissioned siteworks to reflect the availability of enhanced pressure. Transco has consistently maintained within the UNC Distribution Workstream that it would view such arrangements sympathetically and on a 'case by case' basis. However, to date no evidence written or otherwise has been given to Transco to support the above claims".

BP comment: - This is not a definition of an agreement, merely NGT's opinion and as such should have been highlighted by the SME and by not doing so has given the statement additional credence through replication.

BP comment: - Given that the governors have been set by Transco it is concerning from a safety point of view if they are unable to identify those regulators that they have set to higher pressure than the statutory minimum.

SGN state, *"In most cases where enhanced pressure is currently made available it is provided on an informal, reasonable endeavours basis. There is not an open ended or guaranteed entitlement. Enhanced pressure may be available for quite specific reasons and under quite specific conditions. Transco has always been clear that unless an Ancillary Agreement exists there is no obligation on the Transporter to provide enhanced pressure. Even where a formal agreement exists, it has only ever been provided on a reasonable endeavour basis and is not enduring"*.

BP comment: - This statement is only supportable if SGN has evidence that this is what any formal agreement states. If they have such evidence they should be required to produce this documentation.

All Transporters; Transco, Scotia Gas Networks and Northern Gas Networks (NGN), who submitted representations expressed concerns in establishing bi-lateral agreement between the Relevant Transporter and the Consumer. NGN stated that, *"this may be contrary to the provisions of the Gas Act (1986) in that it could constitute an arrangement between a Gas Transporter and the end consumer in relation to the offtake of gas from the system"*. In support of its position, NGN provided the following extract from the Gas Act (1986):

Gas Act 1986 - Licensing of activities relating to gas

5. Prohibition of unlicensed activities

(1) Subject to section 6A below, a person who –

(c) arranges with a gas transporter for gas to be introduced into, conveyed by means of or taken out of a pipeline system operated by that transporter,shall be guilty of an offence unless he is authorised to do so by a licence.

BP comment: - Unless the Transporter is reaching agreement with themselves to transport gas this position is clearly illogical.

In addition to the above, in its representation Transco stated that, "To the extent that a pressure requirements relationship with consumers could be regarded as an activity of this nature, then the consumer would need a shipper licence or an exemption. Failure to obtain this would put the consumer in breach of the Gas Act and the consumer would be guilty of an offence under Part 1 Section 5(3)".

BP comment: - This is a matter for Ofgem.

Disadvantages:

- Potentially increases the costs of system development and operation
- Reduces flexibility of system operation
- Increases administrative costs
- Resource intensive initial validation of existing sites.

In its representation Transco stated that they are *"concerned that there could be a significant 'start up' issue associated with requests for Ancillary Agreements"*. They further state that *"An example of this impact is that the models of the networks have 'flags' indicating the presence of Ancillary Agreements. When model for a new load enquiry is required these flags will identify the need for individual attention relating to agreed elevated*

pressures. If a large number of pressure agreements are negotiated the situation could become difficult to manage.

BP comment: - If this is to cover existing sites currently with informal agreements then whether this modification proceeds or not shippers should be seeking Ancillary Agreements for these sites and thus the "start up" issue is not associated with this modification but with shippers ensuring that they are operating in line with the UNC.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The consultation responses added no further comment to the Proposer's statement. This was that the Proposer believed that implementation should follow immediately when Ofgem's direction was received. Transco suggested that it would be appropriate for the necessary supporting documentation to be developed and agreed prior to implementation of the Modification Proposal.

BP comments: - Transco have made numerous statements at the UNC Distribution Workstream and its predecessor that their legal department were already compiling draft Ancillary Agreements and therefore little or no time should be needed for this task to be completed.

I hope that you find our comments helpful. If you would like to discuss them please contact me or Steve Mulinganie on 07990 972568.

Yours sincerely,

Beverly Ord
Regulatory Affairs