

Modification Report
Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the
Relevant Transporter
Modification Reference Number 0005(0726)
Version 2.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

The final version of the Proposal (v4.0) was as follows:

“For non-NTS loads only, to place an obligation on the relevant Gas Transporter to agree to provide pressure in excess of 21 mbar at the ECV of a service where this can be physically supported under normal operating conditions.

To place the obligation on the relevant Gas Transporter to maintain a pressure in excess of the statutory minimum at the ECV of a service where an agreement exists to provide an agreed pressure.

Following development initially in the SPA Billing Workstream and subsequently in the Distribution Workstream of the UNC additional clarity has been achieved as to the optimum solution for delivering such a guarantee. Therefore the workgroup has asked, and BP has agreed, to redraft our original request to provide a greater degree of granularity as to how such a regime would operate.

The groups also identified the concept of an Ancillary Agreement within the UNC and that it could be utilised to meet this requirement. It was felt the drafting of such an agreement would generally be generic and that only site specific information would be unique.

Following significant discussion it has become clear that such arrangements should be entered into by the consumer and the Relevant Transporter and as such are Bi-lateral agreements. Such an approach avoids the complexities associated with a Tri-partite agreement of Consumer, Relevant Transporter and Shipper / Supplier and negates the need to re-enter into arrangements whenever a Change of Supplier takes place. This approach also removes the potential for significant system enhancement which would arise from a Tri-partite arrangement.

The nature of our proposal is to facilitate in the UNC (via an enduring and generally generic Ancillary Agreement) the ability for the Consumer to enter into arrangements with the Relevant Transporter to receive a Guarantee of Pressure for Meter Points operating above 21 mbar. The procedure would be as set out in the Document “The Procedure for requesting a Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the Relevant Transporter Version 0.1” which would be referenced in the UNC

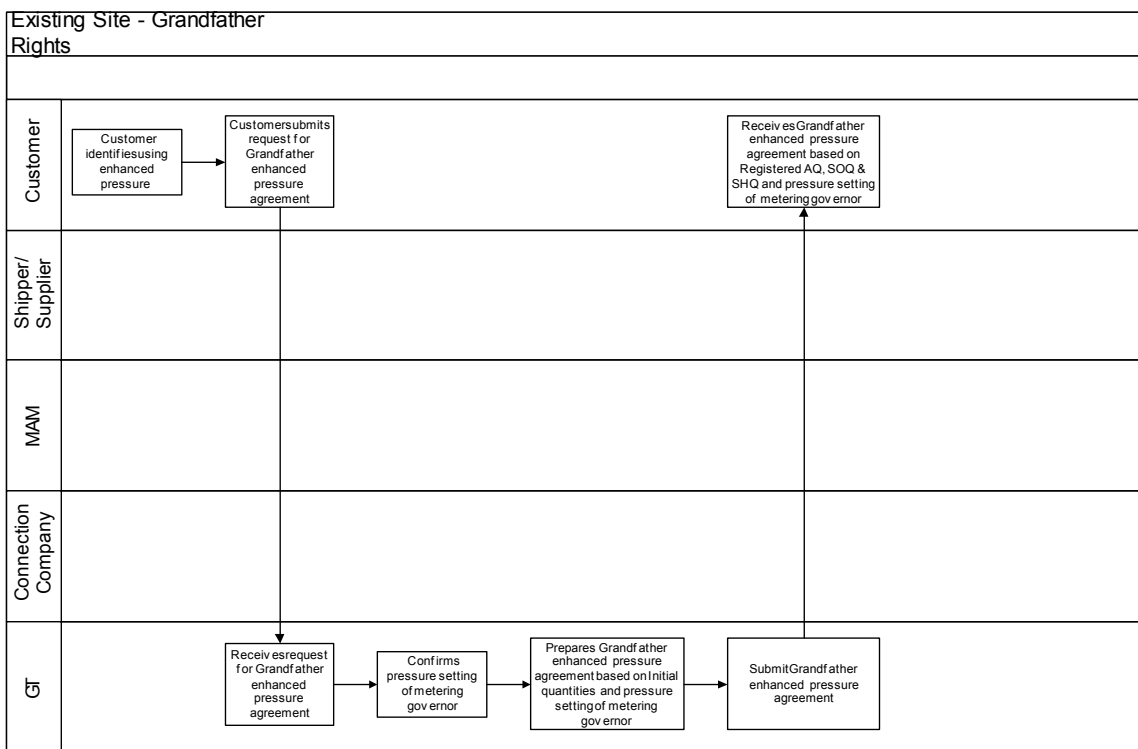
To this extent BP have attached a Process Flow Diagram to provide a detailed overview of the process envisaged: -

Note 1: The Document a “Procedure for requesting a Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the Relevant Transporter Version 0.1” needs to be developed and will be based on the Process Flow Diagram attached. The diagrams cover the scenarios below: -

Note 2: While the flow diagrams do not envisage a Shipper, Supplier, UIP or Third Party carrying out the request this proposal does not preclude such a party acting as an agent for the Consumer.

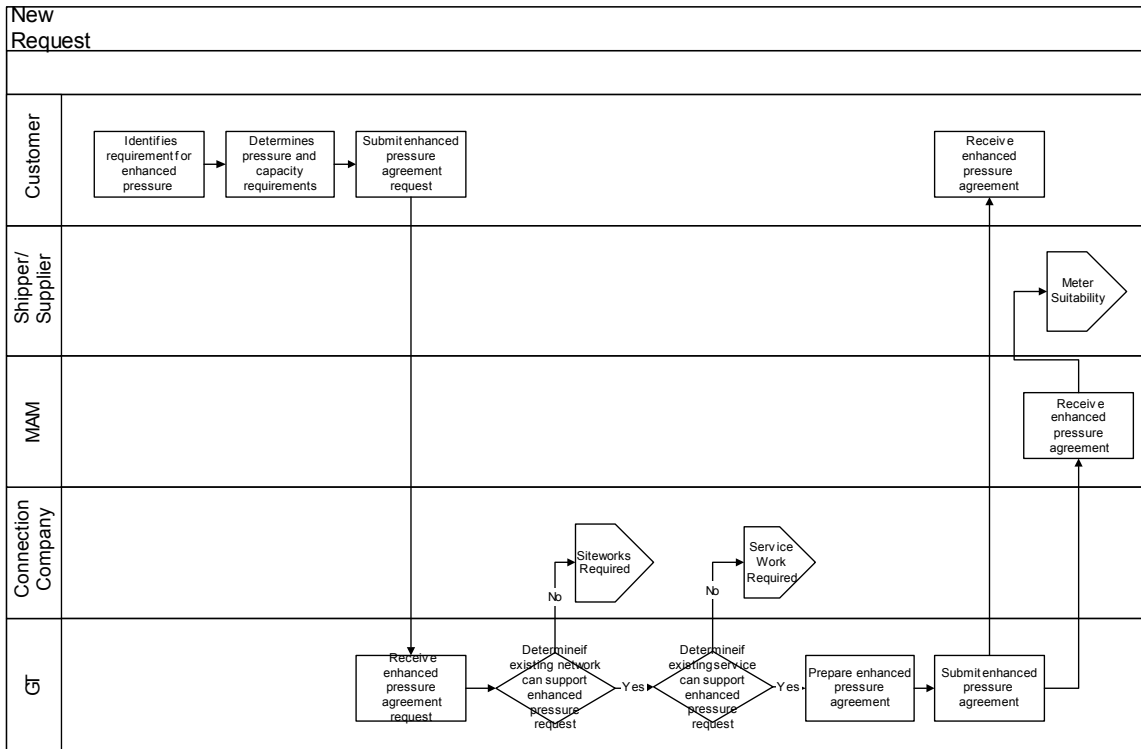
Scenarios

1. Existing Site – Grandfather Rights – (No change)



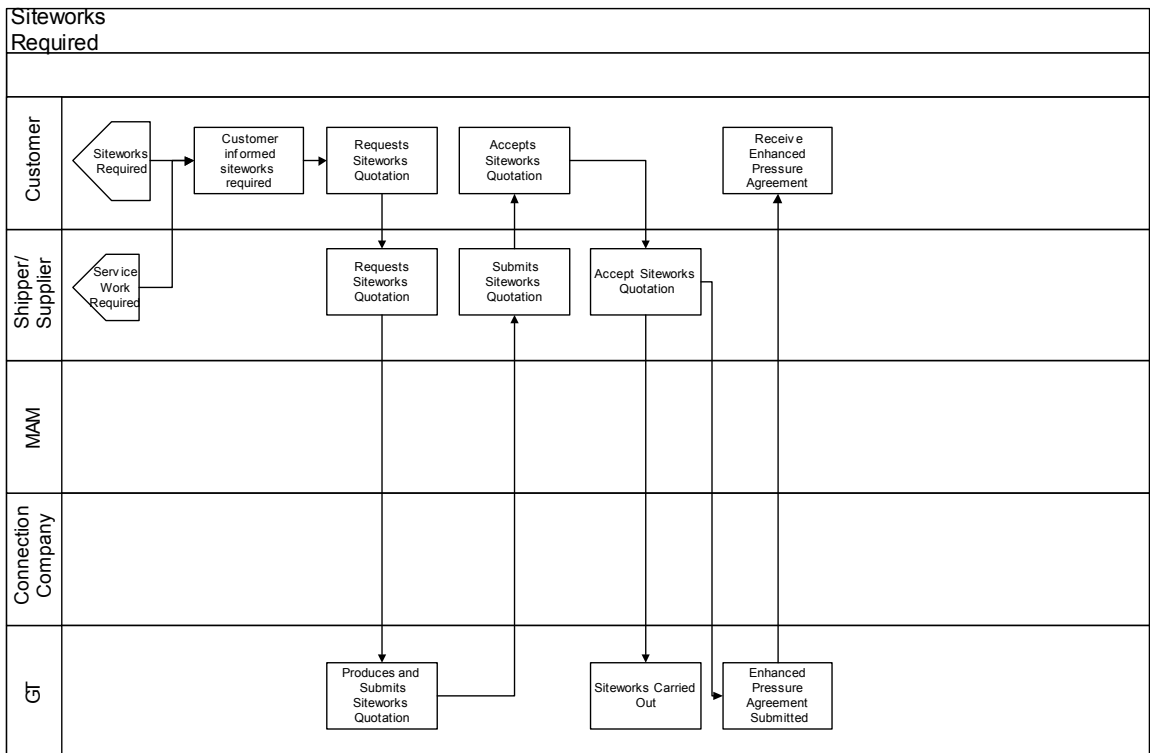
This process flow diagram sets out the process for a consumer who operates at a pressure in excess of 21 mbar and is seeking to request a Provision of a Guarantee of Pressure. This process flow diagram assumes no change.

2. New Request (New or Change in Pressure Requirements)



This process flow diagram provides for a “New” request or an “alteration” to an existing arrangement i.e. increase or decrease in pressure.

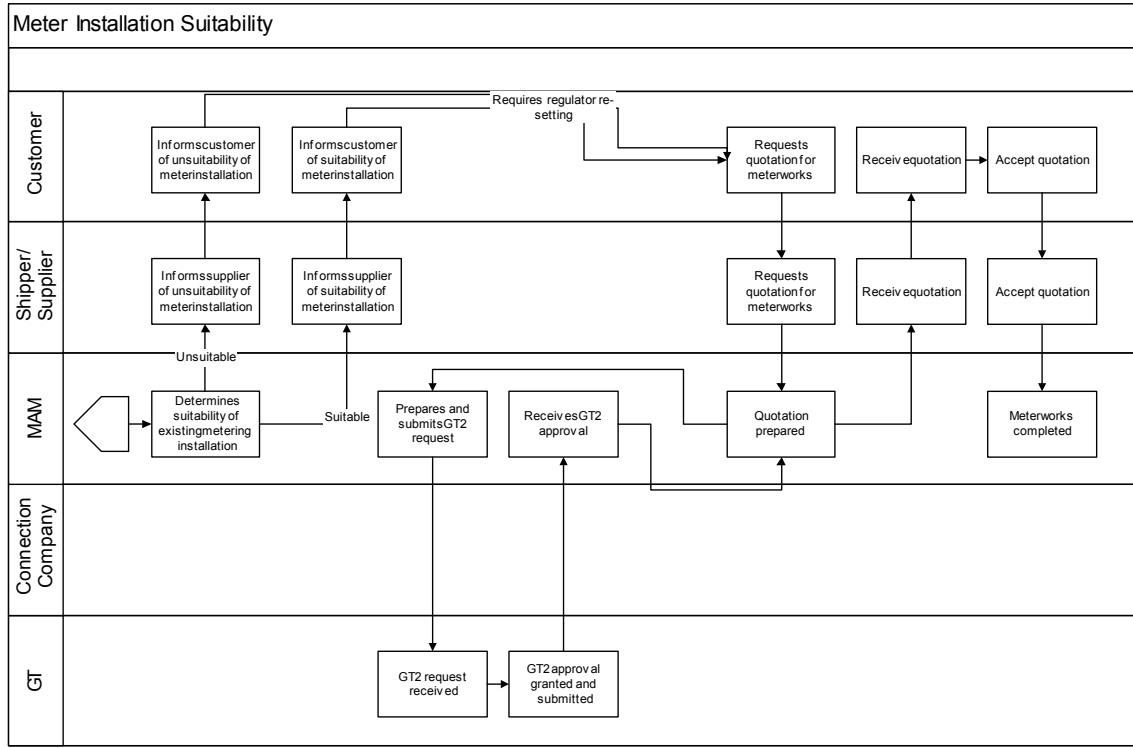
3. Site Works Required



This process flow diagram shows a high level view of the Site Works process which may follow on from a New Request (see 2) The Site Works process would be largely

unaffected by this proposal, the only link being the issuing of the Guarantee following completion of the relevant works.

4. Meter suitability



This process flow diagram shows a high level view of the Relevant Transporters GT2 process. This process provides for the interaction with the relevant Meter Asset Manager (MAM) to ensure the Supply Meter Installation (SMI) is suitable for the pressure arrangements and complies with the Relevant Transporters GT2 requirements.

To ensure that Shippers, Suppliers and Consumers are able to rely on the provision of pressures in excess of 21 mbar by the relevant Gas Transporter where this is physically possible and where an agreement to provide such a pressure exists.

To provide a clear and defined route to achieving such a request by referencing a procedural Document the “Procedure for requesting a Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the Relevant Transporter Version 0.1” within the UNC.

To recognise that such arrangements are Bi-lateral arrangements between the End Consumer and the Relevant Transporter.”

The final version of the Proposal (v4.0) also contained the following further information:

“Without this modification shippers, suppliers and consumers will not have a right to a supply at any pressure above 21 mbar irrespective of the physical pressures in the vicinity of the service. This will require any consumer that requires pressures in excess

of 21 mbar to install compression facilities or risk losing his production capabilities; increasing costs and leading to proliferation of additional and unnecessary compressors.

Where a consumer has arranged for a higher pressure than 21 mbar at their ECV they will have invested in plant and equipment that requires the higher pressure in order to operate. Permanent reduction in the pressure at the ECV will render the investment in plant useless without additional investment in compression equipment and the possible loss of production for the time between the reduction in pressure and the installation and commissioning of suitable compression facilities.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The final version of the Proposal (v4.0) stated:

“The current Network Code provides certainty for the delivery of Volumes to a Consumer’s Meter Point, and where the site operates at less than 21 millibars it also provides a guarantee of pressure for these “low pressure” sites.

However there currently exists no equivalent guarantee of pressure for Meter Points that normally operate at pressures in excess of 21 millibars. It should be noted that a “guarantee” (and therefore the principle) already exists in the very large I&C market as it forms a part of the NEXA agreements.

Previously the relevant Gas Transporter has provided a bundled connection service to customers at pressures in excess of 21 millibars, which would include the provision of a suitably designed metering solution. With the continued unbundling of services, including the unbundling of metering provision, DN Sales and potential Exit and Interruption reform there is a need for a guarantee of pressure to be provided by the relevant Transporter to allow certainty for long-term investment for customers and asset managers as well as ensuring that Suppliers can fulfil their supply contracts.

Historically, as a bundled provider of NTS, LDZ and Metering services, the incumbent relevant Transporter was able to take a holistic view to the management of the Network as a whole and in so doing made its decisions in an impartial manner, i.e. it would not be influenced by vested interests.

To allow certainty for both Consumers, Transporters, Shippers and Suppliers in a market that is continuing to fragment, the requirement for a Guarantee of Pressure at sites operating in excess of 21 millibars needs to be incorporated into the Relevant Gas Transporters Uniform Network Code (UNC).”

The Draft Modification report, which reflected Workstream discussions, stated:

“By ensuring that any pressure service provided at a meter point remains available if and when the Shipper or Supplier is changed, implementation of this Proposal would facilitate the securing of effective competition between relevant Shippers and between relevant Suppliers. This would also be facilitated since pressure services would be

available on a non-discriminatory basis, dependent on the meeting of consistent criteria in all cases.

If, as a result of implementation of the Proposal, the Transporters operate their systems at higher cost in order to maintain pressures at affected sites, and the additional cost exceeds Users' willingness to pay for the service provided, this would not facilitate the efficient and economical operation of the pipe-line systems.

If implementation of the Proposal were to lead to the Transporters investing in network development at a cost which exceeded Users' willingness to pay for the service provided, this could be regarded as inconsistent with the licensees' Gas Act obligations with respect to economic and efficient development of the pipe-line system, and hence with GT Licence obligations."

In its representation, Gaz de France stated that it agreed with the Proposer in the respect that *"this proposed modification would better facilitate GT Licence standard conditions A11.1(f) by ensuring suppliers can fulfil their supply contracts and also A11.1(b) by ensuring there is a consistent approach to pressure guarantee across all pipeline systems."*

E.ON.UK argued that the relevant objective (d), the securing of effective competition, would be furthered *"through ensuring suppliers with enhanced pressure requirements can continue to meet their supply contracts and that enhanced pressure services continue to be made available on a non-discriminatory basis"*.

Most Users submitting representations commented that costs associated with Transporter investment in network development, for any system reinforcement for new loads or changes in existing loads, should be met by the consumer. However, these Users also stated that consumers currently operating on enhanced pressure should not be impacted by this Proposal and should not incur costs when seeking to formalise these arrangements.

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"*.

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"*. 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"*. 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"*.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer argued for certainty *“in a market that is continuing to fragment”* with *“continued unbundling of services”*. Four User representations also commented on this. TGP observed *“With multiple DN owners appropriate safeguards are essential for existing customers to provide surety that commercial decisions made by Transporters will not adversely affect their operations”* and RWE observed that *“..in light of DN Sales there is less certainty that Consumers can expect to receive an elevated pressure.”* GdF argued for *“a consistent approach to pressure guarantee across all pipeline systems”*. STUK requested that *“As services become more unbundled, shippers and suppliers should be allowed the same level of service from all Transporters”*.

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”*

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

The Draft Modification Report stated:

“Transporters’ Systems may in part be operated at higher pressures in order to ensure that any new Transporter obligations with respect to provision of minimum pressures are met.”

In their representations, both BP Energy and Total commented on the fact that Transporter systems were currently operating safely and securely whilst delivering gas at enhanced pressures to those consumers requiring this service presently.

RWE commented on the limits to which enhanced pressure would be available. It stated, *“The proposal identifies pressures at 21 mbar as the lowest pressure level at which this arrangement applies, so by inference there is no upper limit to which this arrangement should apply. If this mod is approved, we would expect that the legal text would make this clear so that all end consumers fully understand their position”*. It should be noted that the Proposal is for non-NTS loads.

The three Transporters submitting representations raised their concerns on implications of this proposal on the operation of the system in particular on low pressure systems. Transco stated, *“The Modification Proposal seeks to oblige Transporters to provide pressure in excess of 21 mbar. Operating pressures of 21.5 mbar may occur, during normal operation, at the outlet of the ECV on parts of low pressure networks. Transco has made clear within the UNC Distribution Workstream the position that it is unable to offer elevated pressure at a Supply Meter Point located on a Low Pressure network. This is because prudent management of the network and non routine operations affect the available pressure away from peak; some systems automatically reduce the source pressure away from peak in order to minimise leakage. In the summer with very low demand on the system the extremity of the network can be maintained at a suitable*

pressure for the supply to 'normal' consumers with 24 mbar at the source, a pressure commitment above 24 mbar for 'special' use (i.e. an non domestic requirement, e.g. a bakery) would unduly constrain the network and lead to additional shrinkage costs absorbed by the whole community".

*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. 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? There is no definition of normal operating conditions and the potential exceptions have not been considered in the proposal, draft modification report or Workstream discussions. For example, we would argue that for the low-pressure network, our understanding of normal operating conditions would effectively exclude the granting of more than 21mbar in all cases".*

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".

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.

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.

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"

b) development and capital cost and operating cost implications:

For the Draft Modification Report, Transporters had not provided estimates of any additional costs which may arise were the Modification Proposal to be implemented. However, they had indicated that both operational (including monitoring) costs and administrative costs (associated with preparing and managing ancillary agreements) would be incurred.

Two Users, BP Energy and Total, in their representations did not foresee the need for system investment to support the current arrangements and therefore, believe that Transporters would not incur development and capital costs or operating costs as a result of implementation of the Proposal. Total stated that, *“as presumably the current distribution system is operated within safe parameters, there will be no additional costs incurred by Transporters as adequate monitoring equipment and appropriate system redundancy should already be in place to ensure efficient network operation. Providing a guarantee that current long term arrangements will not be abruptly discontinued does not require system investment”*. BP Energy considered that *“the costs of administering the proposed Ancillary Agreements can best be minimised by having the document drawn up between the relevant Transporter and the end consumer”*.

E.ON UK envisaged that if this Proposal were not adopted there could be repercussions on the operation of the system. They stated, *“if the network is operated at reduced pressure, in order to maintain volume flow rate, avoid unacceptable velocities and prevent nuisance shut down of consumer's compression equipment, it is likely that the network pipelines would have to be increased in size, increasing costs for all Users”*.

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. The circumstances which dictate the need for System reinforcement will be unique for each site. Therefore a site-specific assessment is required, increasing the cost of processing the siteworks request above a ‘normal’ enquiry. Additionally, work is needed to evaluate customer downstream options in order to ensure that the most efficient ‘least industry cost’ solution is delivered”*.

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”*

The three Transporters submitting representations raised further concerns regarding development and capital costs or operating costs. These are included elsewhere in this report and in particular in section 4a above.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

The Draft Modification Report stated:

“If additional costs are incurred to provide a service to a particular load, the Transporters believe it would be appropriate for those costs to be recovered from the load which receives the enhanced service.

Shippers attending the Workstream felt that, consistent with the existing siteworks process, it would only be appropriate for Transco to pass on costs in the case of new loads, or existing loads seeking to change the service received. No costs should be faced in the case of loads seeking to formalize the continued provision of an enhanced pressure service.”

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. 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. Transco provide several illustrations of what they it stated were “typical cost implications of a Transporter being obliged to ‘guarantee’ an elevated pressure”*

Appendix 1 of the Transco representation provided examples to illustrate potential financial impact.

“These are sites where Transco has a pressure agreement with an independent Gas Transporter (iGT) through the CSEP NExA process. The terms of the NExA permits the parties involved to renegotiate the pressure as it is understood that such pressures quoted are provided on a ‘reasonable endeavours’ basis. The example reinforcements shown below would not be required in actuality. However, for the purposes of this example it has been assumed that the requirements stated in the Modification Proposal have been applied and the pressure quoted would have to be maintained on a permanent basis:

1 Medium Pressure - 2 bar system (maximum operating pressure).

The quoted elevated pressure was 1.87bar. When analysing the demand over the 5 year planning horizon, to maintain the quoted pressure, the following reinforcement costs would be incurred:

400mm PE - 7313metres

Cost - £2,024,466.45

2 Medium Pressure - 350mbar system (maximum operating pressure).

The quoted elevated pressure was 290mbar. When analysing the demand over the 5 year planning horizon to maintain the quoted pressure the following reinforcement costs would be incurred:

400mm PE – 873 metres

315mm PE – 1636 metres

Cost - £620,968

3 *Local Transmission Storage main 70 bar – 20.4bar*

The consumer currently has a connection from a 36” steel pipe to supply an elevated pressure of 34bar that the consumer currently uses on a ‘reasonable endeavours’ basis. On the basis shown in the Modification Proposal would require a connection from the National Transmission System (NTS) the cost of which would be as follows:

Main Contractors

Sub Contractors

Specialist Support

Design Works

Materials

Cost - £4,238,927 + compressor”

In its representation, SGN expressed its concern on how the costs of new supplies would be recovered. SGN stated, “BP has suggested that the Transporter should have the ability to recover costs in relation to new requests or where the customer wishes to change their requirements. It is proposed the Transporter should only be required to provide the enhanced pressure if the customer is willing to pay. Even if the customer is willing to pay, it is not clear to us what, if any costs would be recoverable or on what basis e.g. should he be able to recover all associated investment and operating costs? How would additional operating costs be determined and over what timeframe? How should such costs be recovered? If all costs, including ongoing operating costs are not fully recovered from the relevant customer, would other customers be required to subsidise his specific enhanced pressure requirements. Such a cross subsidy could be significant and could be to the detriment of other customers and ultimately competition. It could also be argued that this is discriminatory”.

d) analysis of the consequences (if any) this proposal would have on price regulation:

The Draft Modification Report stated:

“If the Modification Proposal were implemented, the Transporters would need to consider whether it was appropriate to propose changes to their Transportation Charging methodologies with a view to better reflecting costs incurred.”

In its representation, NGN highlighted concerns on allowable revenue. NGN stated “*the fact that its allowed revenue is set on the basis of meeting its statutory obligations. It would appear reasonable to assume therefore that no allowance is made for ‘guaranteed’ pressure accommodated by design over and above that level*”.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The Draft Modification Report stated:

“Implementation of the Modification Proposal would extend the Transporters’ obligations and so increase the level of contractual risk. However, clarification of the existing contractual position and consequent removal of ambiguity may be expected to reduce the level of contractual risk.”

BP Energy within its representation stated that, *“it could be argued that Transporters are already exposed to contractual risk as an end consumer could argue that the setting of the meter regulator (either by the Transporter or with their agreement) to higher than the minimum legal pressure constitutes agreement to provide such a pressure. Otherwise there could be safety implications of the regulator not operating properly under some operating circumstances”*. Total expressed a similar view to BP Energy that in the setting of the meter regulator (either by the Transporters or with their agreement) to higher than the minimum legal pressure constitutes agreement.

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.

Transco does not believe that the setting of pressure establishes an ‘agreement’ as stated by the Proposer. Transco’s view is that evidence would need to be made available, either written or details of any correspondence between the User and Transco which would confirm an oral agreement was established.

Ancillary Agreements

The UNC Section J clearly sets out the obligation on Users to approach the Transporter where elevated pressure is required. Transco has received no such approaches concerning a ‘grandfather rights’ scenario. During Workstream discussions it was claimed that the reason for this was that the relevant parties were unaware of these provision. Transco’s view is that an unawareness of the terms of transportation contract cannot be used as a reason by Users for failing to propose to Transco to enter into an Ancillary Agreement”

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”.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Provided no obligation is placed on Transporters which would require identification of meter points subject to an enhanced pressure service, for example by a system flag, no systems impacts are anticipated by either Transporters or Users.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The administrative costs of Users would be increased to the extent that they enter into and manage Ancillary Agreements, or advise end users about such agreements.

BP in its representation considered, *“should the Ancillary Agreement be between the relevant Transporter and the End Consumer, Users’ involvement in the process could be minimal. Users would also regard their role in supporting the end consumer in the development, agreement and management of an Ancillary Agreement for Enhanced Pressure as an opportunity to develop the existing relationship with that end consumer”*.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Consumers would have increased confidence regarding the continued provision of enhanced pressures, enabling them to invest in appropriate plant and equipment.

In the view of two Users submitting representations (GdF and BP) implementation of the Proposal would allow for the consumer to formalise current arrangements.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

The Draft Modification Report stated:

“To the extent that Ancillary Arrangements were agreed between Transporters and end users as a result of implementation of the Modification Proposal additional, but largely generic, contractual relationships would be created.”

Gaz de France in its representation stated that they *“agree with the proposer that this agreement should take the form of a bi-lateral agreement between the Relevant Transporter and the end consumer; arrangements of this type would not hinder the change of supplier process and would not have a detrimental impact on competition of supply”*. BP also supported this arrangement and felt that *“the costs of administering the proposed Ancillary Agreements can best be minimised by having the document drawn up between the relevant Transporter and the end consumer, both of whom have longer-term interests in the agreement than shippers and suppliers who change more frequently”*.

Scottish and Southern Energy viewed this Proposal differently and felt that *“in such a situation having an agreement directly between the supplier and transporter would seem to be appropriate, although this moves away from providing the customer with a managed service.”*

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.

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)”*.

The Transporters submitting representations stated that there was already provision within the Uniform Network Code (UNC) for Users to enter into an Ancillary Agreement and therefore implementation of this Modification Proposal would not be required. For example, Transco stated that, *“UNC Sections J2.2.4 and J2.2.5 establish that Users may propose to the Relevant Transporter to enter into an Ancillary Agreement for a specified pressure”*.

Further to the concerns expressed above regarding the Gas Act, SGN expressed the view that, *“For this reason, capacity is booked and held by the Shipper”*. They go on to state that *“Associated UNC provisions have been developed around this "shipper hub" principle. As capacity and pressure are inextricably linked we believe it would have made sense that pressure commitments are entered into by the same party. We do not believe the "complexities" associated with transferring pressure commitments at change of shipper or supplier are significant”*.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

- Provides clarity for consumers that existing arrangements for enhanced pressure services will continue.
- Provides increased confidence that enhanced pressure services would continue to be made available on a non-discriminatory basis.
- Clarifies contractual position in UNC by formalizing provision of enhanced pressure arrangement.
- In its representation BP considered that this Proposal, “*reduces the risk associated in new plant investment by removing the risk of additional plant purchases should the enhanced pressure be dropped, thus increasing the competitiveness of natural gas against other competing fuels*”.
- BP expressed the opinion that this Proposal “*minimises the proliferation of supply points utilising compressors or boosters to produce enhanced pressure at appliances*”.
- RWE Npower stated that this Proposal “*will help to give comfort to Consumers who are looking to make long term investments*”, and they also believe “*that this certainty can only serve to help the DNs in their management of their Networks.*”

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*”.

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Ten representations were received with respect to this Modification Proposal. Six parties supported implementation and one party offered qualified support.

Statoil (U.K.) Limited Gas Division	(STUK)	Support
E.ON Uk plc	(EON)	Support

RWE Npower Plc	(RWE)	Support
BP Energy	(BP)	Support
Gaz de France ESS	(GdF)	Support
Total Gas & Power Limited	(TGP)	Support
Scottish And Southern Energy plc	(SSE)	Qualified Support
Northern Gas Networks Limited	(NGN)	Against
Transco Distribution	(Transco)	Against
Scotia Gas Networks	(SGN)	Against

Gaz de France in its representation and BP Energy in its Modification Proposal, considered that there were agreements in place that provided for guaranteed or assured pressure in the form of NEXAs and that there was a guarantee of pressure for end consumers operating below 21mbar. Gaz de France saw this Proposal as covering those sites where there was *“no such provision, in code or by means of an ancillary agreement, for meter points that lie between these parameters i.e. Meter Points that operate above 21 millibar and are connected to Distribution Networks.”* Gaz de France viewed the lack of such provision as *“discriminatory”*.

Whilst these two Users believed that there was no provision or arrangement currently for guaranteeing pressure to end consumers, Total stated that in its view, *“Transporters have already agreed to provide and maintain enhanced pressures when their engineers have set onsite configurations”*. Total went further to say, *“that this modification merely formalizes an existing process”*. Total believed that *“other informal services have already been mandated within the UNC. Ofgem approved modification 717 as it provided greater governance of a key service to Users.”* For clarification, Modification 717 relates to Condition 31 of the Gas Transporters Licence that places an obligation on the Transporter to establish or procure the operation and maintenance of a Supply Point information service. Implementation of this Modification Proposal would clarify the Transporters’ obligations in this respect.

Total, whilst supporting the proposal for guaranteeing pressure to end consumers stated that in its view, *“such guarantees would not be applicable in an emergency situation.”*

All those Users submitting representations expressed concerns that if the Proposal was not implemented, consumers currently supplied with enhanced gas pressures, could incur excessive costs in securing suitable gas pressures should the relevant Transporter stop supplying gas at the present enhanced pressure. One User expressed concerns that reductions in pressure could lead to loss of production and damage to equipment. E.ON UK viewed that a situation created by the Transporter where the End User could not operate on reduced gas pressure and where they had no practical means of securing the required pressure, was one where the Transporter had effectively failed in its duty to make gas available for offtake. E.ON.UK further stated that, *“Transco have not only installed the equipment to deliver enhanced pressure but in many, if not all cases, the consumer has contributed to the cost of this equipment. To our knowledge, at no point have Transco approached shippers to request that they formalise this arrangement via an ancillary agreement other than for very large loads, via a NexA”*.

E.ON.UK underlined the above in stating *“Any removal of the service [pressure] would depend upon engineering criteria and would almost certainly be discriminatory and*

anti-competitive, potentially closing down vast tracts of British industry”. However, the User provided no evidence in support of this statement.

In consideration of the validation of existing sites, BP expressed the view that, *“it could be argued, therefore, that any costs in validating existing sites are a consequence of a weakness in their record-keeping and a challenge to their RPO status”*.

Transco commented on the obligations to provide pressure. It stated, *“No ‘statutory minimum’ pressure exists. Under the Gas Safety (Management) Regulations 1996 Transporters are required to meet the following obligation: ‘The gas shall be at a suitable pressure to ensure the safe operation of any gas appliance (within the meaning of regulation 2(1) of the 1994 Regulations) which a consumer could reasonably be expected to operate”*

SGN and Transco commented on NExAs and stated that in their opinion these types of agreements do not guarantee gas pressure. These Transporters also stated that these agreements are not enduring and provide for arrangements to be reviewed or terminated. Transco go further on the comparison of this Proposal with a NExA. It stated *“It is true that the UNC contemplates a Supply Point NExA between a Transporter and a gas plant operator or consumer but this is only to facilitate Network code obligations on shippers under the UNC and to permit cooperation with plant operators/consumers. It does not impose transportation obligations on the Transporter nor shipper obligations on the consumer, nor does it contain a pressure guarantee. Therefore a NExA is not analogous to this proposal”*.

Transco, in its representation commented on the Terms of an Ancillary Agreement. It stated, *“Transco is not and has never been able to ‘guarantee’ elevated pressures. Contrary to the claims of the Proposer the UNC does not provide any ‘guarantee of pressure for....low pressure sites’. Furthermore a Network Exit Agreement (NExA) does not ‘guarantee’ a pressure as claimed by the Proposer.*

Transco has established procedures by which a request can be made to obtain the pressures and gas flow rate that the service pipe is designed to supply at the outlet of the emergency control valve (ECV). The standard operational pressures for each pressure tier are contained within document T/PM/GT/1. These pressures were published to the industry and appear in the IGE document IGE/GM/8. These constitute the design operation pressures pertinent to each tier.

Transco is willing and able to enter into an Ancillary Agreement but is firmly of the view that such an agreement must feature:

- 1. Provisions that such pressures are provided on a case by case basis and where it is reasonable to do so. Note: Transco currently offers elevated pressures free of charge on this premise.*
- 2. Provisions permitting termination or modification of the agreement (with adequate notice) by either contracted party.*
- 3. An agreed period following which review and, if necessary, renegotiation would be required.*
- 4. Allowance for the most economic solution for any pressure provision to be ascertained. This may involve consumer boosters or compressors”*.

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14. Programme for works required as a consequence of implementing the Modification Proposal

No programme for works would be required as a consequence of implementing the Modification Proposal.

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.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 15 September 2005, of the nine Voting Members present, capable of casting ten votes, four votes were cast in favour of implementing this Modification Proposal. Therefore the Panel did not recommend implementation of the Proposal.

18. Legal Text

No legal text has been developed by the Proposer or within the Workstream.

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Tim Davis
Chief Executive Joint Office of Gas Transporters

Signed for and on behalf of Relevant Gas Transporters:

Signature:

Date :