

**Draft Modification Report**  
**Commercial Arrangements for combined DN Exit / Entry Points**  
**Modification Reference Number 0105**  
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

## **1. The Modification Proposal**

### **Current Arrangements**

In accordance with UNC TPD paragraph B1.2.8, where an Aggregate System Entry Point (“ASEP”) is connected to an LDZ, Users delivering gas at that point are deemed to have utilised capacity in the NTS and, consequently, would have to apply for and hold NTS Entry Capacity to avoid capacity over-runs. At present there are a small number of such connections which account for a relatively small proportion of the gas entering the UK gas network. These entry points are either on-shore gas fields or LNG boil-off connections. Since these entry points are deemed to have used the NTS, they are listed in the NTS Entry Capacity Statement, included in NTS’s Transporter Licence Schedule A, in exactly the same way as actual NTS connections, such as the beach terminals and the Interconnector. Accordingly, all the provisions of UNC TPD Section B, including commercial activities such as capacity auctions and capacity buy-backs apply at these DN System Entry Points. To summarise, whilst physically being attached to the Distribution Network, from a regulatory perspective and contractually, they are treated as being attached to the NTS.

This proposal concerns the development of contractual arrangements for, what is at present, a unique type of system connection point known as Holford. Holford is characterised by being both a combined System Exit and System Entry Point connected to the North West Distribution Network. It is intended that shipper(s) would use the facility as short-term storage which could require the storage facility to be filled and emptied frequently throughout the year. Under the current licensing and UNC arrangements, during its emptying cycle Holford storage facility would be classified as a System Entry Point and shippers wishing to export gas to the Total System would need NTS Entry Capacity. As with other System Entry Points connected to the DN, the quantity of capacity available would be specified in NTS’s transporter’s licence, (although in this case baseline capacity would be zero as the entry capacity would be fully interruptible).

### **Proposal**

In recognition of the physical situation, it is proposed that the UNC is modified to exclude System Entry Points connected to a DN, not specified in the NTS's Licence Capacity Statement, from being deemed to have used the NTS. In this way, much of the complexity of including Holford in the NTS Entry Capacity commercial arrangements would be removed. The connection would still be categorised as a System Entry Point and, as such, gas entering from the connection would still be allocated to a shipper and would form part of its aggregate UDQI and, as such, would still be available for trade at the NBP.

For the avoidance of doubt, with respect to the exit arrangements, (Holford’s fill cycle), it is proposed that the facility is treated as a DM CSEP, and would observe all the UNC terms associated with such exit points.

The System Entry Point would be required to have a Storage Connection Agreement, (incorporating Network Entry Provisions), which would deal with the inter-operator arrangements such as restrictions to flow rates and interruption of filling and emptying cycles. It is anticipated that, at least for a transitional period up to

30th September 2007, the System Entry Point at Holford would have no firm capacity rights in respect of both the filling and the emptying parts of the operating cycle.

It is understood that other similarly connected System Entry Points may wish to migrate away from the current commercial arrangement in the fullness of time, but to de-link other such System Entry Points from NTS Entry Capacity would require more significant UNC and transporter licence modifications, particularly if the migration involved the transfer of firm capacity obligations between transporter licences.

We believe that a simple, specific, temporary dis-application of Section B2 (NTS Entry Capacity), as advocated in the proposal, is the appropriate way forward, given the nature of the physical operation occurring at this system point.

### **Consequences of non implementation**

For gas to be able to enter the Total System, Holford would need to be included as a System Entry Point in NTS licence capacity statement and would be given baseline entry capacity. Since it is proposed that the Holford operation is fully interruptible, in terms of both exit and entry, the baseline capacity would be zero.

The inclusion of these points, which have no effect on either NTS SO or TO operations, would seem to be purely a bureaucratic exercise resulting in no benefit to the NTS business. Accordingly, we would see the adoption of such a regime for the Holford scenario, as being inefficient from both a commercial and a regulatory perspective.

### **Proposed Charging Methodology**

At present, distribution transportation charges are based primarily on the Supply Point Offtake Quantity, Annual Quantity and actual throughput offtaken for a Supply Point or Connected System Exit Point (“CSEP”). There are no distribution transportation charges relating to the entry of gas into the distribution system. Hence, the charging regime may be summarised as:

- **Connection Charge:** payable by the developer, reflecting the cost of the physical connection to the existing system and any immediate reinforcement requirements or additional NTS exit capacity required. This is similar in principle to the arrangements for new gas demand. In the case of Holford the physical connection assets already exist.
- **Exit Charge:** for gas exiting the DN at Holford it is proposed to apply existing DN CSEP charges. For an interruptible customer (who does not pay capacity charges), this would only be the LDZ CSEP commodity charge.
- **Entry Charge:** at present no charges exist for gas entering the DN and it is not proposed to introduce one, for the proposed transitional period, where the entry arrangement is wholly interruptible.

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

Arrangements that allow the offtake and short term storage of gas on a Distribution Network provide an additional tool for shippers to balance their portfolios. Although the service proposed here is wholly interruptible, such an arrangement would have the potential to deliver gas to the Total System at times of high demand and, generally, would provide an additional source of gas to shippers depending on the facility’s operating cycle.

It is of the Proposer's opinion that the additional balancing tool, created largely by utilising existing transportation assets at marginal cost, would further relevant objectives SSCA11.1(a) and (d) of a gas transporter's licence. We believe that introducing the new DN Entry service would enhance the efficient and economic operation of our pipeline system and the additional balancing tool offered to Users would assist in securing effective competition between relevant shippers and suppliers.

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

The implementation of this proposal should not have any affect on security of supply or industry fragmentation. Arrangements that allow the offtake and short term storage of gas on a Distribution Network provide an additional balancing tool for shippers.

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

**a) implications for operation of the System:**

Inter-operator agreements would be put in place to ensure the filling and emptying cycles at this facility do not adversely affect the operation of the relevant distribution network's system.

**b) development and capital cost and operating cost implications:**

Following clarification from the Proposer, the SME can confirm that no anticipated development and capital cost and operating costs implications are anticipated as a result of implementation of this Modification Proposal. This facility would be created as an entry point in the same way as other DN entry points would be accommodated on UK Link systems.

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

No cost recovery mechanism is required.

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

No such consequences on price regulation have been identified.

**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**

No additional obligations under the UNC would be placed on Transporters as a result of implementation of this Modification Proposal and consequently, the relevant transporters would not have any additional contractual risk.

The inter-operator arrangements, contained within a Storage Connection Agreement, will include the terms and conditions for the offtake and entry of gas to the System.

**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**

No systems implications have been identified.

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

No such implications have been identified.

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

This Proposal allows a new entry point to be connected to the system without a requirement to modify the NTS Licence.

The facility owner may be able to realise potential benefit from its asset.

**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**

No such consequences have been identified.

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

**Advantages**

- Facilitates inclusion of a site with, at present, unique physical properties within existing UNC arrangements.
- The nature of these short term arrangements facilitates timely operation of this site whilst also allowing for any changes to the enduring regime following recommendations made as a result of the Ofgem Consultation “New entry arrangements for connecting to the gas distribution network”.
- Facility owner is able to realise a potential benefit from its asset.
- The facility may be able to provide shippers with an additional balancing tool.

**Disadvantages**

- none identified

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

*Written Representations are now sought in respect of this Draft Report*

**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 of works would be required as a consequence of implementing the Modification Proposal.

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

As no system changes are anticipated, implementation of this Modification Proposal could be effective immediately following the Ofgem decision date.

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

There are no implications relating to implementing this Modification Proposal upon existing Code Standards of Service.

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

## 19. Text

### UNC Modification Proposal Number 0105

#### Commercial Arrangements for combined DN Exit / Entry Points

#### Legal text for Modification Proposal

#### Transition Document Part IIC

*Insert the following as new paragraph 1.1.6:*

“1.1.6 TPD Section B2

Notwithstanding the provisions of Section B1.2.8, the provisions of TPD Section B2 shall not apply to any LDZ System Entry Point (a “**New LDZ System Entry Point**”) that is not listed in Table A2 of Schedule A to the National Grid NTS’s Transporter’s Licence. In respect of any New LDZ System Entry Point, the type and quantity of entry capacity that will be offered, the method by which such capacity will be offered and subsequently allocated, and the rules relating to the use of that capacity will be set out in a separate agreement (a “**Bilateral Agreement**”) between the relevant Transporter and the operator of the Delivery Facility connected to the System at the New LDZ System Entry Point. The relevant Transporter may make it a condition of any User being allocated or holding capacity at a New LDZ System Entry Point that such User enter into or accede to an Ancillary Agreement setting out the terms of the use of the relevant System for the purposes of delivering gas at the New LDZ System Entry Point.

Any references in the Code to Section B2 shall, for the purposes of a New LDZ System Entry Point, be deemed to be references to this paragraph 1.1.6, the provisions of the relevant Bilateral Agreement and/or the relevant Ancillary Agreement as the case may be.

For the purposes of the Code, the Available Firm NTS Entry Capacity in respect of a New LDZ System Entry Point shall be zero (0).

The provisions of this paragraph 1.1.6 shall cease to apply at 06:00 hours on 1 October 2007.”

***Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report***

Subject Matter Expert sign off:

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

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive Joint Office of Gas Transporters**

Signature:

Date :