

**Draft Modification Report**  
**Enduring Provisions for LDZ System Entry Points**  
**Modification Reference Number 0154**  
**Version 1.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

## **1 The Modification Proposal**

### **Background**

In August 2006 National Grid raised Modification Proposal 0105, (“Commercial Arrangements for combined DN Exit / Entry Points”), to provide an arrangement for gas to enter the Total System directly via an LDZ System Entry Point where no baseline capacity was allocated to it through National Grid NTS’s transporter licence. The trigger for raising this proposal was the connection at Holford storage facility. The solution implemented established the principle of using inter-operator flow agreements to establish the physical arrangements while still allowing the existing UNC commercial arrangements to apply, thereby ensuring that gas entering the system at the point is included in the delivering shipper’s balance in the absence of an NTS Entry Capacity holding. (For reference; the key rule in this issue is UNC TPD B1.2.8, which requires gas entering at an LDZ System Entry Point to hold NTS Entry Capacity. This in turn prompts the inclusion of these points in NTS’s licence). While proposal 0105 was raised to address a specific issue at Holford, the transitional arrangement put in place was generic and could have been applied to other excluded entry points.

Since the implementation of proposal 0105, Standard Special Condition D12 has been accepted by each DNO for inclusion in their respective licences. Basically, this condition requires a DNO to offer connection terms to an operator wishing provide for the introduction of gas directly into an LDZ. The enduring nature of the condition requires an enduring arrangement in the UNC and this proposal seeks to provide such an arrangement. Building on the concept and rules introduced into the UNC by proposal 0105, the purpose of this proposal is to establish enduring arrangements for new LDZ connections or existing LDZ entry points allocated baseline NTS Entry Capacity wishing to move to these new arrangements following a change to its regulatory treatment.

### **LDZ System Entry - Principal Document UNC Rules (deletion of transitional rules required)**

1. A " **'New, (or excluded)', LDZ System Entry Point**" is created where a DNO permits, or has in the past permitted, a connection to its pipeline system for the purpose of introducing gas into the pipeline system and such System Entry Point is not, or is no longer, listed as an Entry Point in Schedule A, Table A2 of NTS's Licence and a Bilateral Agreement has been signed and agreed.
2. Conversely, an " **'Old, (or included)', LDZ System Entry point**", that is a point where gas directly enters a DNO’s pipeline system but is currently included in NTS's licence. It would only be eligible for reclassification as a New LDZ System Entry Point when it ceases to be

included in Schedule A and a Bilateral Agreement has been agreed and signed.

3. In accordance with SSCD12 of a DNO's Gas Transporter Licence, a DNO will allow the introduction of gas into the system in accordance with the terms and conditions set out in a bilateral agreement between the transporter and the Delivery Facility Operator ("DFO"), ("**the Bilateral Agreement**").
4. The Bilateral Agreement will set out the operating parameters in accordance with which the DFO will operate gas flows at the a New LDZ System Entry point and specify the condition of the gas that it may tender for delivery by a shipper into the system (see paragraph 8).
5. For a New LDZ System Entry Point, UNC TPD B1.2.8 will not apply. (This will have the effect of switching-off the entry capacity rules pertaining to NTS Entry Capacity set-out in UNC TPD Section B2 and I3.7 to I3.9).

Old LDZ System Entry Points will continue to be subject to such provisions.

6. In the case of a New LDZ System Entry Point, the operational parameters for the physical delivery of gas would set-out in, and be determined by, the provisions of the Bilateral Agreement.

Shippers wishing to deliver gas to the system will be required to acknowledge that they are aware of the conditions contained in the Bilateral Agreement and acknowledge that, where conditions relevant to the introduction of gas into the system set out in the Bilateral Agreement are breached, or non-standard operating conditions exist, deliveries of gas may be curtailed and/or suspended by the transporter by instructing the DFO.

7. "**non-standard operating conditions**" exist when a DNO is experiencing one or more of the following occurrences on a relevant part of its system: an emergency, a transportation constraint is evident or one or more system exit points have experienced a gas supply failure.
8. The shipper accepts that where a breach of the Bilateral Agreement occurs and flows need to be restricted, this will be carried out via direct contact between a DNO and the DFO.

#### **9. Liability**

Where a DNO is unable to accept the nominated quantity of gas due to its actions then it will be liable to the shipper for a sum equal to 5 times the daily transportation charge, (payable by the shipper), in respect of the quantity of gas which was not accepted due to the DNO's action, subject to the quantity nominated by the shipper, up to a maximum of the maximum permitted daily flow for the day in question.

A DNO would not be liable to the shipper where a nominated delivery is not accepted in accordance with its rights under the Bilateral Agreement. Additionally, where a DNO is experiencing non-standard operating conditions, or force majeure applies, it would not be liable to

the shipper for refusing to accept the gas.

Note:- Should the pricing consultation conclude that there should be no transportation charge associated with the LDZ System Entry Service, no UNC liability would rest with a DNO for not accepting gas.

10. The shipper will pay the relevant entry transportation charge, (if any), in respect of a New LDZ System Entry Point set out in the transportation statement.

For the avoidance of doubt, Old LDZ System Entry Points would continue on the existing basis, i.e. the shipper needs to book capacity under Section B and the charges would continue to be payable on that basis.

11. All charges and payments, (if any), will be invoiced in accordance with Section S.

### **LDZ System Entry – Supporting Contractual Framework**

**For information only, supporting agreements would be required and would have the following form and function:**

1. **The Bilateral Agreement** (between a DNO and the DFO) will amongst other things:
  - contain the Network Entry Conditions as envisaged by UNC Section I;
  - set out the maximum and minimum delivery pressures;
  - detail all the information flows relating to before-the-day and on-the-day operations.
  - give the DNO rights to:
    - reject gas that does not meet the standards set out in the Network Entry Conditions;
    - reject gas in excess of the maximum flow rates stated in the Bilateral Agreement,
    - close the entry point if the pressure is not maintained within the upper and lower limits, and;
    - more generally provide for a control arrangement that allows the DNO to close the entry point if system security is threatened.
  - set out a range of flow-rate arrangements;
    - maximum daily and hourly flows - available at the connection under optimum (high demand) flow conditions, and;
    - maximum daily and hourly flows - available at the connection under low flow conditions.

It is proposed that the Bilateral Agreement would enable a DNO to charge costs associated with connection / reinforcement / wayleaves etc. incurred to get the required quantities into the pipeline system.

2. **Allocation Agreement** (between participating shippers)

Where more than one shipper delivers gas at the New LDZ System Entry Point, the participating shippers shall be jointly responsible for providing an Allocation Agreement and each shipper shall be party to such agreement. Under the Allocation Agreement, the allocating party would provide information to NTS detailing the quantity of gas allocated to each shipper at the entry point. As a default, if no allocation quantity is provided to the NTS, gas will be allocated on a pro-rata basis based on each shipper's nomination for the relevant day.

### **Consequences of non-implementation**

Without some form of alternative arrangements such as these, it would not be possible for gas to enter the Total System at an excluded LDZ System Entry Point. The UNC only provides for transportation terms for shippers where LDZ system Entry Points are "included". Without an amendment to NTS's licence, (which clearly is outside the gift of a DNO), an amendment to commercial terms for gas entering the system is the only way that gas entering from [contained in] (*sic*) these reserves would be accessible to shippers.

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

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

Arrangements that allow the introduction of gas directly into an LDZ provide an additional tool for shippers to balance their portfolios. The introduction of a new LDZ Entry capability would facilitate the achievement of this objective.

*Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;*

Implementation would not be expected to facilitate the achievement of this objective.

*Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation of this proposal would fulfil the obligation placed on each DNO by the direction of Standard Special Condition D12 in April 2007. Creating an enduring DN Entry mechanism in the UNC complements the provisions of this new licence condition.

*Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:*

- (i) between relevant shippers;...*

Arrangements that allow the introduction of gas directly into an LDZ provide

an additional tool for shippers to balance their portfolios. The additional balancing tool available to shippers would facilitate the achievement of this objective.

*Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;*

Implementation would not be expected to facilitate the achievement of this objective.

*Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;*

Implementation would not be expected to facilitate the achievement of this objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

As the points are discrete from the NTS, the Proposer does not advocate creating them as included entry points. NTS involvement with these flows is limited to its function as market operator; they have no effect on NTS's transportation business from a physical perspective. Accordingly, the Proposer would see the extension of the practice of including new LDZ System Entry Points in NTS's licence as inefficient in both commercial and regulatory terms.

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

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

Allowing the introduction of gas directly into an LDZ would provide an additional tool for shippers to balance their portfolios. This would in turn be expected to reduce the requirement for National Grid NTS to carry out Operational Balancing Steps, although this impact is expected to be minor.

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

No development or capital costs would be incurred. Any impact on operating costs would be small and probably reductions.

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

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

At present, distribution transportation charges are based primarily on the Supply Point Offtake Quantity, Annual Quantity and actual quantity offtaken at a Supply Point or Connected System Exit Point. There are no distribution transportation charges relating to the entry of gas into the distribution system. Hence, the existing 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 to facilitate the required flow-rates.
- **Entry Charge:** there are no entry charges, neither capacity nor commodity, for gas entering the system at an excluded LDZ entry point.

While this statement reflects the current charging regime, it is proposed that DNOs undertake a charging pricing review to see if this is an appropriate arrangement to move forward over the long-term.

**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 such consequence is anticipated.

**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 changes to systems would be required as a result of implementation of this Proposal.

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

***Administrative and operational implications (including impact upon manual processes and procedures)***

There are no significant implementation issues in terms of systems, process or procedures. This has been demonstrated at an existing LDZ system entry point currently operating under the existing transitional rules.

***Development and capital cost and operating cost implications***

Implementation would facilitate the introduction of gas at LDZ entry points. Users would be expected to benefit from this additional gas availability.

***Consequence for the level of contractual risk of Users***

Establishing enduring arrangements would be expected to reduce the level of contractual risk of Users.

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

The establishment of enduring arrangements for LDZ entry points would be expected to benefit the associated producers.

**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**

**Advantage**

- Introduction of enduring arrangements would provide a greater degree of certainty for the parties involved.

**Disadvantages**

- No disadvantages have been 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**

No such requirement has been identified.

**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**

No such requirement has been identified.

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

No programme for works has been identified.

**15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

It is proposed that the Modification be implemented with effect from 06:00hrs 01 October 2007.

**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**

**18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

**19 Text**

The Modification Panel did not determine that text was required.

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

For and on behalf of the Relevant Gas Transporters:

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