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UNC Modification Proposal 0154

Enduring Provisions for LDZ System Entry Points

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

Summary

National Grid NTS offers qualified support for the implementation of this Modification Proposal 0154.

Whilst National Grid NTS recognises that the DNOs acceptance of Standard Special Condition D12 (requiring a DNO to offer connection terms to an operator wishing to introduce gas directly into an LDZ) to their respective Gas Transporter Licences requires them to bring forward enduring arrangements to supersede those introduced into the UNC by Modification Proposal 105, National Grid NTS continues to have a number of concerns with the arrangements proposed and particularly the potential effects on NTS investment, Flow Weighted Average CV related shrinkage cost and cross subsidy between DN and NTS entry shippers..

Concerns

National Grid NTS supported Modification Proposal 105 as a practical solution that could be applied as an interim and time dated measure until sufficiently robust enduring arrangements could be put in place. The Proposal avoided much of the complexity associated with acquiring the NTS Entry Capacity that was required to enable a DN embedded Entry Point (in this case Holford) to access the System. The Proposal whilst being both pragmatic and expedient was explicitly a short term arrangement which was intended to permit time to consider what National Grid NTS believe to be

fundamental issues raised by the direct entry of gas into a DN and in particular how an enduring framework might be implemented.

Whilst we recognise that previous DN entry points have existed, notably Hatfield Moor and Wytch Farm, both these facilities predate the establishment of the Network Code and as such are legacy arrangements and the Hatfield Moor onshore gas field has now been decommissioned. Therefore we consider that the connection of new DN entry points needs careful consideration to ensure that the contractual terms and conditions offered to shippers using these new entry points do not provide unduly preferential terms or impose undue cost on other network code parties.

Many of the issues raised by National Grid NTS in response to Modification Proposal 105 and the Ofgem Consultation on "New Entry Arrangements for connecting to the Gas Distribution Network - Enduring options for Treatment of DN Embedded Entry" are still of concern, and are as follows:

- Planning – Whilst DN Embedded Entry flows are initially anticipated to be small and are expected to have a relatively minor impact on NTS/DN offtake flow patterns and profiles, were this to prove not to be the case i.e. if flows were to increase in proportion to the relevant DN demand, the existing OCS booking and planning process may prove to be insufficient to provide the NTS with sufficient investment signals.
- Potentially this could require additional NTS investment as less gas is being offtaken by an LDZ and additional gas may be needed to be transported further into the system. National Grid NTS is unclear as to how it would recover such costs from the appropriate parties.
- Bidirectional Points – From a physical perspective additional DN Embedded Entry Flows may have indirect impacts upon the NTS, such flows might generate a requirement for gas flows from the DN to the NTS, turning some current DN/NTS offtakes into bidirectional points raising such issues as:
    - who would pay the cost of turning a DN offtake into a bidirectional system point.
    - who would allocate the flows at a bidirectional LDZ system point
- Risks of Flow Weighted Average CV energy loss – Depending on the CV of the gas being delivered at the DN embedded entry point in relation to the gas offtaken from the NTS, the Shrinkage Manager may encounter unexpectedly high Flow Weighted Average CV NTS Shrinkage losses arising from potentially lower DN Embedded Entry Point CVs which National Grid NTS has no control over. Such costs would be split between National Grid NTS and NTS shippers via the balancing incentive and this may result in inappropriate cost targeting between NTS entry and DN entry Shippers. We therefore consider that this Proposal has the potential to adversely impact competition between Shippers.
- Access to the NBP – Commercially there may be other issues for National Grid NTS to consider such as whether such flows should have access to the NBP and if so what market access charges might be appropriate.
- Future potential for DN Embedded Entry Points - National Grid NTS believe that any enduring proposals should reflect an assessment of the potential scale of future DN Embedded Entry with the primary objective being to ensure that decisions are made that ensure that new connections are made to whichever network would generate the most economic and efficient outcome whilst ensuring that Transporters are fairly treated. Specifically the enduring regime should minimise risks to both Transporters and consumers of inefficient connections.

National Grid NTS offers qualified support for the implementation of Modification Proposal 0154 even though the proposal will require both the Proposer and National Grid NTS to undertake a review of the issues outlined prior to offering unqualified support. Whilst National Grid NTS is concerned that the issues outlined above may require further review with all affected stakeholders it is not yet clear whether such a review is entirely dependent upon Modification Proposal 0154 or should be held on an ongoing case by case basis once an assessment of the long term scope of these issues has been undertaken.

Extent to which implementation of Modification Proposal 0154 would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

National Grid NTS considers that Modification Proposal 0154 would, if implemented, better facilitate one of the following DNO Relevant Objectives as set out in their Gas Transporters Licence, but has concerns regarding consequential impacts upon National Grid NTS's Gas Transporter Licence Objectives:

- In respect of Standard Special Condition A11 paragraph 1(a) (the efficient and economic operation of the pipeline system), as stated above, without a full assessment of the scale or long term impact of DN Embedded Entry National Grid NTS cannot agree that this Proposal will lead to economic and efficient outcomes for the NTS pipeline system.
- In respect of Standard Special Condition A11 paragraph 1(c) (efficient discharge of the licensees obligations under this licence) the Proposal has been raised to meet a Licence Obligation on the DNO to offer terms for the provision of gas entry points to connect to the LDZ, whilst the proposal does meet this objective National Grid NTS is concerned that implementation may lead to an increase in costs for both National Grid NTS and NTS shippers which would have an impact on National Grid NTS' ability to meet its own licence obligations and additional costs generated via the incentive schemes.
- In respect of Standard Special Condition A11 paragraph 1(d) (securing effective competition between relevant shippers), the potential impact of the Flow Weighted Average CV issue as outlined above could result in differing affects on NTS and LDZ Shippers and inappropriate cost targeting.

Regards

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