

CODE MODIFICATION PROPOSAL No 0164
Bi-Directional Connection Point Overrun Charge Calculation
Version 1.0

Date: 30/07/2007

Proposed Implementation Date: For Consultation

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Summary

Bi-directional System Connection Points are currently configured on UK Link systems such that physical utilisation is not equivalent to the volume of gas used for capacity calculations. This modification seeks to address the disparity between the treatment of uni-directional points and bi-directional points.

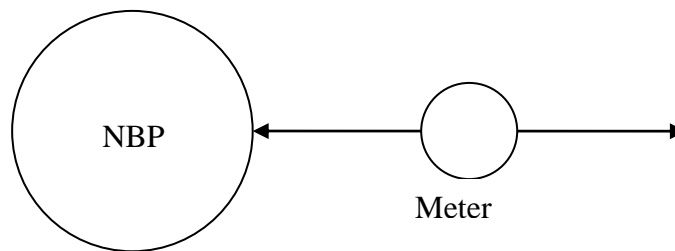
Purpose

So stop Users of bi-directional points suffering capacity overrun charges when they have not exceeded their capacity physically. To prevent users from being unduly influenced by unintended charges and enable them to ship gas in a more economic manner.

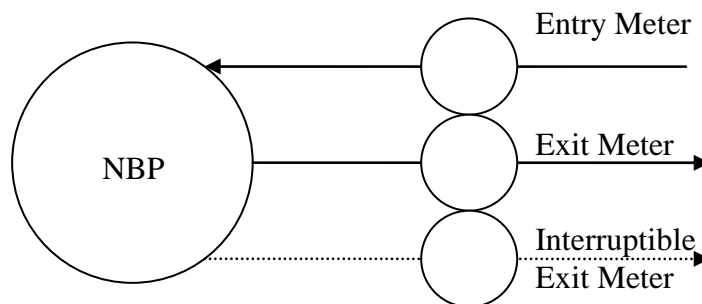
History and Description of Existing Problem and Workaround

When AT Link was originally developed it was discovered at a late stage that it was incapable of handling bi-directional nominations and meters without significant modification. The Transco Storage team developed a work around which could be implemented quickly and enable AT Link to be implemented on time and without significant extra cost. The work around required Bi-directional sites to be represented by two sets of meters and nominations on UK link (now Gemini), one Exit and one Entry. Where the off-take is also interruptible then an interruptible Exit meter is also included. At that time of AT Link development the capacity regime was very different, Transco was the operator of all bi-directional points (storage sites), only Transco Storage was exposed to charges and any charges were paid directly to Transco without Users receiving a portion through a smear. This means that System Users were not exposed to the overruns associated with these points and any charges caused were kept within Transco businesses. The current configuration of meter points is represented in the following diagrams:

The physical connection point is represented as follows, where the meter can measure in both directions or is turned around to the prevailing direction of flow:



In UK Link the connection point is represented as follows, all meters require separate nominations, capacity and allocations:



For the following explanation we will assume that there is only a single input and output meter for simplicity.

The UNC (and UK Link) requires that the sum of allocations at a meter point must equal the meter reading. This means that where a User requires an allocation opposite to the net flow direction of a bi-directional point then no physical meter reading can exist for UK Link to allocate against. The UK-Link work-around uses dummy (or virtual) meter readings to give an allocation, it is explained in the following example:

Where the net flow (and physical meter reading) through the point is entry and a User requires an exit allocation then UK Link requires a dummy exit meter reading to be submitted to the allocations process to enable a valid allocation. To ensure a proper gas balance on the NBP then the entry meter reading must also be increased by the same amount. This results in the entry meter reading and allocations being higher than the actual physical flow. UK Link uses the allocated flows to calculate the amount of capacity overrun and in this example will consider the additional dummy flow against capacity bookings and could result in an overrun charge. This means that capacity is required and Overrun can be incurred, even when there is no physical flow.

This volume involved is exacerbated significantly where flow varies for operational reasons, is subject to TFA, interruption or emergency action. These types of action can result in one or more Users being forced into paying Entry Capacity overrun when no gas enters the system. The only recourse currently available is to purchase long term capacity or obtain more

within day capacity from NGG.

Until Winter 06/07 this situation has been tenable because capacity costs at bi-directional sites have been low and within day capacity has been freely available. Changing supply patterns now mean that entry capacity at a number of bi-directional sites is more highly utilised, much more expensive and less freely available. NGG have been much more reluctant to release within day capacity for fear of additional input flows. The changes to the capacity mechanism since the introduction of AT Link when combined with this work-around could now cause some Users to be exposed to business critical multi-million pound overrun charges.

Detailed Description of Proposed Changes:

Ideally we would like the treatment of bi-directional meters to be fundamentally changed to allow logical meters to be combined into single points with bi-directional nominations and allocations. Such a change would be complicated and extensive and we suspect that NGG would be unable to implement such a change within a reasonable time. The following proposal therefore provides a patch to mitigate the problem and avoid large changes to UK Link.

We propose that the calculation mechanism for entry and exit overrun charges is changed so that charges are not levied on gas which has not physically flowed.

We propose that the following calculation steps will be used to generate overrun volumes:

1. For each user at a connection point the overrun amount in the direction of net flow is calculated as currently. (User Overrun Amount)
2. The overrun amounts for each user are summed. (Total overrun amount).
3. The Net Overrun Amount is calculated by subtracting the gas allocated in the opposite direction from the Total Overrun Amount.
4. If the Net Overrun Amount is positive then each overrunning User is charged a portion of the Net Overrun Amount in proportion to his User Overrun Amount at that point.

We welcome the advice of NGT on how this could be most effectively implemented.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

We would like this modification to be implemented as soon as possible however we recognise that NGG may have to modify systems, which is known to be a lengthy process. Given the potential impact of the issue we suggest that NGG put in place a workaround or manual process to avoid users being subject to large overrun charges whilst systems development

takes place.

- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

We recommend that this proposal is sent to the Transmission Work-stream for discussion and to highlight any clarity issues or suggestions for improvement before being submitted to the panel. The proposer is happy to answer any questions and accept any input by e-mail and telephone.

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

Operation of a Co-ordinated Economic System

A User can currently be charged for input or output overrun even though that user has not performed a physical overrun or had an effect on the Transmission System. This causes the capacity mechanism to disincentivise Users from flowing economic sources of gas. This modification will enable users to optimise gas portfolios more economically and will benefit the end user through lower cost energy supplies.

This modification will stop undue cross subsidisation through the capacity mechanisms from Bi-directional connected point Users to uni-directional Entry Point Users and Exit Point Users.

Users of bi-directional sites are currently incentivised to purchase more entry and exit capacity than is physically needed. This causes capacity shortages, artificially high capacity prices, and results in distorted system investment signals. This modification will remove this incentive.

Undue Discrimination

A user can currently be exposed to overrun charges and cross subsidise other Users when he has acted responsibly and had no detrimental effect on the system. Some Users could be exposed to overrun costs so large that they would impact the viability of their businesses.

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

We do not believe there will be any impact on security of supply, if anything the risk to storage and interconnector Users would be reduced, leading to longer term investment and business certainty.

We do not believe that industry fragmentation will be increased.

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

a) The implications for operation of the System:

We believe there may be benefits to the operation of the System by allowing the entry capacity mechanism to operate with less distortion and provide NGG with more accurate forecasts of system utilisation.

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

We are unable to determine how NGG will implement this change and welcome their feedback in their response on the cost implications. We believe that the extent of the potential impact of not implementing this change would warrant a temporary manual work around to be put in place by NGG if systems cannot be developed quickly enough.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

We believe that this modification addresses a long standing problem with the suitability of UK link systems and NGG has already benefited by deferring the work to rectify it and remove the need for the work around.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

We do not believe that the transporters contractual risk is significantly changed.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not Applicable

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

We are unable to determine how NGG will implement this change and welcome their feedback on the implications in their response.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Users who re-conciliate entry capacity overrun charges may choose to change entry capacity overrun calculations in their processes or systems.

b) The development and capital cost and operating cost implications

We are unable to comment on the impact on other users. Centrica Storage's systems will require very minor modification.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

We do not believe there is any risk above that inherent to making any code modification.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

We do not believe any of these parties will be impacted directly in their non-shipper roles.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

We do not believe these will be affected.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

Disadvantages

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

12 Detail of all other representations received and considered by the Proposer

13 Any other matter the Proposer considers needs to be addressed

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B

Proposer's Representative

Stuart Waudby (Centrica Storage)

Proposer

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