

CODE MODIFICATION PROPOSAL No 0273
Governance of Feasibility Study Requests to Support Changes to Network Exit Agreements
Version 1.0

Date: 11/11/2009
Proposed Implementation Date: 01/10/2010
Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency (see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

It is recommended that this Proposal should proceed to development at the Transmission Workstream.

1 Nature and Purpose of Proposal (including consequence of non implementation)

Background

If a Shipper User wants to increase the off-take of gas at a National Transmission System (NTS) Exit Point or Distribution Network (DN) Exit Point, which would exceed the maximum flow rate and/or ramp rate as set out in the Shipper User's Network Exit Agreement (NExA), the Transporter will assess the impact of the Shipper User's request on the existing infrastructure before agreeing to the increase in gas off-take.

A necessary part of the assessment process is an engineering / "feasibility" study (or studies), which must be completed to the Transporter's satisfaction, before it will agree to changes to the flow rate / ramp rate in the NExA. These studies will typically examine the suitability of the equipment at the Exit Point (the Above Ground Installation (AGI)) and where the AGI is unable to support the Shipper User's request, any equipment upgrades that would be required to do so.

The cost of undertaking a feasibility study (or studies) is currently paid for by the Shipper User, and costs will vary considerably depending on the nature of the request and the AGI affected. As there are no indicative costs currently published by Transporters, it is often only once the Shipper User has raised a request and agreed terms with the Transporter (perhaps taking several months) that the full costs of the study become apparent. Shipper Users currently have no confidence that these costs are reasonable or cost-reflective, since there is only one provider of feasibility studies – the relevant Transporter – and Shipper Users are not in a strong position to challenge them.

Under current UNC rules or under the terms of the Transporter's Licence(s), there are no timescales established for any aspect of agreement to or completion of feasibility studies; including establishing scope, nature and duration of study and the number of studies required, etc. As with the costs issue identified above, the full extent of the feasibility study requirements and likely duration often only become apparent many months after initially requesting the study from the Transporter.

The lack of transparency with regards to the costs and timescales associated with feasibility study applications can be frustrating for Shipper Users, particularly when operating under tight project timescales. This may, for example, result in additional electricity generation or gas storage capability not being brought to market as quickly as it could otherwise have been, had suitable arrangements

been in place, to ensure timely processing of applications.

The proposer notes that the process in gas differs substantially from that in electricity, where the equivalent of feasibility studies is covered by the *Connection and Use of System Code (CUSC)*, Section 6.9. This provides for formal requests (“Modification Applications”) to be dealt with and “Offers” made to Users within three months from the date of formal request. The “Offer” would typically include a feasibility / engineering study included as an integral part.

In addition, in electricity there are published¹ fixed fees for feasibility studies (which are subject to Ofgem non-veto) and which are intended to be cost-reflective (i.e. they vary depending on the size of the increase requested).

The Proposal

The current absence of published fixed timescales and costs makes the feasibility study process in gas opaque to Shipper Users. Because Shipper Users are requesting and funding feasibility studies, the proposer considers that it is only reasonable that these should be governed by clear, transparent arrangements to ensure that all parties are treated equally, requests are dealt with promptly and studies are completed in a timely manner. By codifying fixed timescales and costs, both Shipper Users and Transporters will be able to better manage each other’s expectations.

To this end, it is proposed that:

- A standard document is used by Shipper Users for submitting feasibility study applications to be made available by Transporters and published on their website.
- Transporters to publish and make use of a standard set of terms and conditions for feasibility study applications.
- Transporters to publish fixed application costs for different categories of applications [subject to Ofgem non-veto]. The application fee will be dependent upon size, type and location of the applicant's scheme.
- [Consistent with CUSC arrangements in electricity, Shipper Users will be able to opt to pay a fixed price application fee. Alternatively, Users can opt for a variable price application and pay an advance of the charges based on fixed, published prices which will be reconciled once the actual costs have been calculated.]
- Feasibility study to be completed within 3 months of the date of the application being formally submitted by the Shipper User.
- Where additional studies are required, these are to be completed within a further 3 months (i.e. a maximum of 6 months from the date of formal application by the Shipper User).

For clarity and for consistency, this proposal is intended to apply to both National Grid NTS and the Gas Distribution Network Operators.

2 User Pays

¹ National Grid – ‘The Statement of Use of System Charges’

a) **Classification of the Proposal as User Pays or not and justification for classification**

As far as the proposer is aware, this proposal would not impact on xoserve services and therefore is classified as 100% Transporter Pays.

b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

N/A

c) **Proposed charge(s) for application of Users Pays charges to Shippers**

N/A

d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

N/A

3 **Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence**

(c) ...the efficient discharge of the licensee's obligations under this licence

By formalising and codifying the arrangements for requesting and conducting feasibility studies, National Grid NTS will be meeting Standard Licence Condition (SLC) 4C (for DNs, SLC 4D), by ensuring any gas shipper is not obtaining any unfair commercial advantage including any advantage from a preferential or discriminatory arrangement. For example, under the current arrangements, Transporters may be dealing with the least difficult applications first, thereby giving some Shipper Users preferential treatment. Whilst we have no evidence to suggest this is the case, implementation of this Proposal would ensure that the process is conducted on a transparent, non-discriminatory basis.

The proposal will also ensure that Standard Licence Condition 4E is not frustrated (Requirement to Enter into Transportation Arrangements in conformity with Network Code). It is our view that the current absence of fixed costs and timescales may be frustrating formal transportation arrangements being agreed (i.e. changes to a NExA delayed due to requirement for feasibility study to be completed first).

(d)...the securing of effective competition...(i) between relevant Shippers

An increase to a NExA maximum offtake rate and /or ramp rate would typically provide increases in electricity generation capability, additional gas storage capacity, or meet the additional demands of NTS connected-I&C customers. By revising the arrangements for feasibility studies, Users should be able to bring new projects to market much quicker, thereby increasing the diversity of products on offer and increasing competition in the market.

In addition, if a Shipper User knows at an early stage what both the financial and time implications are of their request; they will be able to make more informed decisions about the economics of a proposed project which will mean that they

are able to make more efficient decisions (e.g. the cost of the studies will outweigh the benefit of increasing the NExA off-take requirement). Currently, this decision cannot be made until well into the process, when considerable time and effort may have been expended by both Shipper and the relevant Transporter.

4 **Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text**

Impact on systems, process or procedures

Bringing the process under the governance of the UNC introduces new standards of service to this area and will require Transporters to consider the impact of this Proposal on their resources. We welcome Transporter views on this matter, as part of the development and consultation process.

The proposer anticipates that the workload and time spent by Shipper Users on progressing feasibility study requests will be much reduced by implementation of this Proposal, and specific benefits would include, for instance, lower legal costs and less FTE requirement to be spent on the application process.

Implementation timescales

We anticipate that it may take development at several Workstreams to agree on suitable timescales and standards of service and therefore have allowed until October 2010 for implementation.

5 **Code Concerned, sections and paragraphs**

- a) Uniform Network Code
- b) Transportation Principal Document

Section(s) To be advised.

Proposer's Representative

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Proposer

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