

Modification proposal:	Uniform Network Code (UNC): Commercial Arrangements for NTS Commingling Facilities (0363)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office of Gas Transporters, Parties to the UNC and other interested parties		
Date of publication:	19 December 2011	Implementation Date:	1 October 2012

Background to the modification proposal

National Grid Gas (NGG) is the owner and operator of the National Transmission System (NTS) for gas in Great Britain. It has received a request for an NTS connection from a coal bed methane project developer. This is an unconventional source of gas the composition of which is not expected to conform to GB gas quality standards as specified in the Gas Safety (Management) Regulations 1996 (GS(M)R). The developer wants to utilise passing NTS gas for 'commingling' with its coal bed methane gas to produce a GS(M)R compliant mix capable of re-entering the NTS and being brought to market.

NGG considers that the characteristics of a commingling facility are unique and warrant separate classification and transportation charging arrangements within the UNC. Specifically, it considers that virtually all the gas offtaken from the NTS for the purposes of commingling with coal bed methane gas, would be redelivered within day and that the facility would, in effect, offtake and deliver gas simultaneously. As such NGG considers that a commingling facility would impose different costs on the NTS relative to other NTS connections, such as gas storage facilities, which also require NTS entry and exit capability.

The current UNC arrangements do not make provision for commingling facilities. The proposal was raised by NGG, and seeks to modify the UNC in order to facilitate such a connection. In its response to the consultation on the proposal, the developer of the coal bed methane project – Greenpark Energy – indicated that if the proposal is not implemented, and separate charging arrangements for commingling facilities are not introduced, the costs would be likely to make development of the project prohibitive.

The modification proposal

NGG do not consider that commingling facilities should impose the same system costs as other NTS users who require NTS entry and exit capability. In common with gas storage facilities, the NTS gas used for 'commingling' purposes will be assumed only to have left the NTS temporarily. In contrast to gas storage facilities, due to the simultaneous nature of the offtake/delivery flow profile, the NTS gas used for commingling purposes will not be assumed to alter peak system capacity requirements. Consequently, it is proposed that NTS commodity charges are levied in respect of commingling facilities on the basis of net gas flows, and that users will only have to book sufficient NTS entry capacity and NTS exit capacity to cover their net position.

The proposal is to modify the UNC in order to classify and define the new type of connection in the UNC as an 'NTS Commingling Facility'. In addition it introduces

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

commercial arrangements which will determine transportation charging arrangements consistent with the above description, and a process which will facilitate the netting off of each relevant Shipper User's daily entry and exit gas flows at this type of facility from which a net energy allocation would be derived.

To support these arrangements, the following administrative changes are also proposed:

- introduce a requirement for a relevant Shipper User to enter into an ancillary agreement in respect of each such facility in order to facilitate agency arrangements for the allocation of gas;
- establish allocation agency arrangements for each such facility; and
- incentivise Shipper User gas flow nominations in respect of each such facility to be consistent with their net end of day quantity in order to avoid scheduling charges.

NGG considers that the proposal will better facilitate the achievement of relevant objective³ d) 'securing of effective competition' of its Gas Transporters (GT) Licence. It considers that the proposal will better facilitate the securing of effective competition between Shipper Users to the extent that it enables additional supplies of gas to be delivered to the market. NGG also considers that the transportation charging arrangements proposed - based on net gas flows - are consistent with the principle that charges should be cost reflective. This could be expected to facilitate effective competition to the extent that the transportation charges levied minimise potential charging cross subsidy between users.

The proposer also considers the proposal will better facilitate the achievement of relevant objective c) 'efficient discharge of the licensee's obligations'. Specifically it considers the proposal is consistent with standard licence condition A6 'Conduct of Transportation Business' and standard licence condition A7 'Requirement to Enter into Transportation Arrangements in Conformity with the Network Code'⁴.

UNC Panel⁵ recommendation

The UNC panel considered the Final Modification Report (FMR) at its meeting on 17 November 2011. The panel voted unanimously in favour of implementation.

The Authority's decision

We have considered the issues raised by the modification proposal and the FMR dated 17 November 2011. We have considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁶. We have concluded that:

³ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

⁴ In respect of A6 it considers the inclusion of terms for NTS Commingling Facilities in the UNC is the manner best calculated to secure that any gas shipper does not obtain any unfair commercial advantage from a preferential or discriminatory arrangement (SSC A6(1)) by ensuring that all Shipper Users that may wish to make arrangements for the entry of gas into the NTS at a NTS Commingling Facility are subject to common terms described in the UNC. In respect of A7 it considers that to the extent that the UNC does not currently contain specific provision for the simultaneous transportation of gas to and from a facility that is directly connected to the NTS, this modification would better facilitate this licence condition by ensuring that National Grid Transmission is providing relevant Transportation Arrangements in conformity with its Network Code.

⁵ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁶ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁷; and
2. directing that the modification to be made is consistent with the Authority's principal objective and statutory duties⁸.

Reasons for the Authority's decision

We have assessed the proposed modification against the UNC Relevant Objectives. We consider that this modification proposal better facilitates relevant objective (c) and (d), and is neutral with respect to all other relevant objectives.

Standard Special Condition A11.1 (d): the securing of effective competition between relevant Shippers

We agree with the proposer that the proposal better facilitates the achievement of relevant objective d) 'securing of effective competition'. In our view, by defining the term 'NTS Commingling Facility', and setting out the commercial and associated administrative arrangements applying to its use of the NTS in the UNC, the proposal will facilitate the connection of commingling facilities to the NTS. In so doing the proposal may facilitate the entry of a new gas supply source (or sources) to the GB gas market, offering increased choice of gas supply to shippers. This has the potential to result in downward pressure on gas prices to the benefit of consumers. In this respect, we also consider that the proposal is consistent with the Authority's principal objective of protecting the interests of existing and future consumers, wherever appropriate by promoting effective competition.

In our view cost reflectivity of network charges also contributes to effective competition. Cost reflective charges minimise the chance that less efficient users may be subsidised by more efficient users thereby ensuring that efficient users are able to apply downward pressure on prices. We have considered the arguments presented⁹ by NGG in favour of the proposed arrangements and, on the basis of the evidence available, we agree that the simultaneous nature of an NTS Commingling Facility's offtake and delivery flow profile justifies levying network charges on the basis of net gas flows. In providing for a cost reflective treatment of such facilities within NTS transportation charging we agree that this aspect of the proposal also better facilitates relevant objective d).

Each of the responses to the consultation on the proposal supported its implementation and each of the respondents who commented on the relevant objectives agreed with the proposer that it better facilitated relevant objective d).

Standard Special Condition A11.1 (c): the efficient discharge of the licensee's obligations

⁷ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

⁸ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

⁹ The Final Workgroup Report summarises the arguments in favour of cost reflectivity presented by NGG in the workgroup meetings associated with the proposal's development, and referred to again by NGG in its consultation response. For more detail on NGG's analysis of the cost reflectivity of the proposal see NGG's presentation to the meeting of the Workgroup held on 7 April 2011 which can be viewed at <http://www.gasgovernance.co.uk/0363/070411>

We also agree with NGG that, in facilitating this new type of NTS connection in response to the request from the coal bed methane project developer, the proposal will better facilitate relevant objective (c). We agree that ensuring that all Shipper Users who may want to make arrangements for the entry of gas into the NTS at a NTS Commingling Facility, are subject to common terms described in the UNC, is consistent with Standard Licence Condition A6. We also agree that, to the extent that the UNC does not currently contain specific provision for the simultaneous transportation of gas to and from a facility that is directly connected to the NTS, the proposal is consistent with NGG's obligation to provide relevant Transportation Arrangements in conformity with its network code, as set out in Standard Licence Condition A7.

GB Security of supply

The proposal is consistent with our principal objective to protect the interests of existing and future consumers – those interests are their interests taken as a whole and include their interests in the security of the supply of gas to them. A further benefit of the introduction of a new gas supply source (or sources), such as an 'NTS Commingling Facility' to the GB gas market, would be to enhance GB security of supply. The GB gas market is dependent on gas imports to meet demand. Some of the potential interactions between import dependency and security of supply have been identified in our Gas Security of Supply Significant Code Review¹⁰. The volume of gas the Coal Bed Methane project identified in connection with this proposal may bring to market is not material to this decision, but we consider that by facilitating this type, or similar types, of connection to the NTS, the proposal has the potential to enhance GB security of supply.

Other issues

One issue, which was identified by a number of respondents in their responses, related to the proposed classification and definition of 'NTS Commingling Facility' within the UNC. Some respondents questioned the need for the definition to specify that the simultaneous offtake and delivery flow profile, which characterises the commingling facility, was for the 'sole purpose' of the commingling activity. Those respondents considered the definition was potentially discriminatory and that a more generic definition may avoid having to further modify the UNC in the future in the event that a future supply connecting to the NTS also exhibited the simultaneous offtake and delivery flow profile, but did not meet the commingling definition.

A number of respondents also indicated that if the proposal was implemented it would be appropriate to monitor the characteristics of the proposed commingling facility after connection. This would ensure that the simultaneous offtake and delivery flow profile was observed and, consequently, that the proposed commercial arrangements remained appropriate.

In our view the questions identified by respondents raise relevant concerns, but do not undermine the extent to which the proposal better facilitates achievement of the relevant objectives discussed. In its consultation response NGG set out its view that a more generic definition would not be appropriate, because certain aspects of the proposal, such as the requirement for both volume and Calorific Value (CV) measurement at both the

¹⁰ A copy of our recent draft policy decision on the Gas Security of Supply Significant Code Review is available at the following location on our website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Draft%20Policy%20Decision%20Gas%20Security%20of%20Supply%20Significant%20Code%20Review.pdf&refer=Markets/WhIMkts/ComandEff/GasSCR>

NTS entry point and NTS exit point, were specific to the commingling activity and may not be appropriate for other users. Further, in its response, NGG also considered that should a connection request emerge in the future that exhibited similar characteristics to an NTS Commingling Facility, save for the activity of commingling, a remedy to any potential concerns relating to differences in treatment would be available via a further code modification.

We agree that the proposed definition strikes an appropriate balance between facilitating the new type of NTS connection and minimising the potential for unintended consequences associated with a more generic term. However, in directing implementation of the proposal we consider it would be appropriate for NGG to monitor the effectiveness of the new arrangements, including monitoring whether any NTS Commingling Facility exhibits the NTS use anticipated.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 0363: 'Commercial Arrangements for NTS Commingling Facilities' be made.

Andy Burgess
Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose.