

# 0525:

## Enabling EU Compliant Interconnection Agreements

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

In relation to the three GB Interconnection Points, this Modification seeks to:

- facilitate compliance with European legislative changes for Interconnection Agreements;
- address consequential impacts on CSEP Ancillary Agreements; and
- enable consultations with Users relating to Interconnection Agreement changes.



The Workgroup recommends that this Modification should now proceed to Consultation.













High Impact: None



Medium Impact: Shippers and National Grid NTS



Low Impact: Distribution Networks

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<b>8 Recommendation</b>	<b>12</b>	 <a href="mailto:deborah.brace@nationalgrid.com">deborah.brace@nationalgrid.com</a>
<b>About this document:</b>		 01926 653233
This report will be presented to the Panel on 18 June 2015.		Systems Provider: <b>Xoserve</b>
The Panel will consider whether the Modification should proceed to Consultation or be returned to the Workgroup for further assessment.		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
The Proposer recommended the following timetable for the Modification:		Additional contacts: <b>National Grid NTS</b>
Initial consideration by Workgroup	11 March 2015	 <a href="mailto:philip.hobbins@nationalgrid.com">philip.hobbins@nationalgrid.com</a>
Amended Modification considered by Workgroup	27 May 2015	 01926 653432
Workgroup Report presented to Panel	18 June 2015	
Draft Modification Report issued for Consultation	18 June 2015	
Consultation Close-out for representations	09 July 2015	
Final Modification Report published for Panel	10 July 2015	
UNC Modification Panel decision	16 July 2015	

# 1 Summary

## Is this a Self-Governance Modification?

Self-Governance procedures are not proposed, because this Modification should be considered in the context of other EU-driven changes that together will have a material effect on commercial activities connected with the transportation of gas conveyed via the National Transmission System and the operation of the pipeline system.

## Is this a Fast Track Self-Governance Modification?

Fast Track Self-Governance procedures are not envisaged because the Proposer does not believe that the Modification Proposal meets the self-governance criteria for the reasons stated above.

## Why Change?

The European Network Code on Interoperability and Data Exchange ('INT Code') sets out certain mandatory provisions for inclusion in Interconnection Agreements (IAs). The INT Code recognises that some of these provisions – including nominations matching, gas allocation rules<sup>1</sup> and communication procedures in exceptional events – affect Users and therefore it mandates consultation with Users. Currently, as the existing IAs do not contain some of these provisions, UNC does not recognise this consultation requirement.

In addition, new matching and allocation rules arising from Modification Proposal 0510 (Reform of Gas Allocation Regime at GB Interconnection Points) as a result of the INT Code could give rise to issues of liability, which also need to be addressed.

The CSEP Ancillary Agreement<sup>2</sup> (CSEP AA) in respect of each Interconnection Point (IP) contains provisions in relation to both operational rules and User Agent arrangements. The provisions relevant to the User Agent role will no longer be required under the allocation arrangements being introduced at IPs through Modification Proposal 0510 and the operational rules need to be incorporated into UNC. Some unique issues in respect of the Moffat IP also need to be addressed.

## Solution

The proposed solution is to: -

- Facilitate User consultation and Ofgem approval in respect of changes to the IAs that affect Users which will take effect from 1st October 2015;
- Establish UNC governance arrangements for any amendments to the IAs that affect Users post 1st October 2015;
- Provide for Users to indemnify National Grid NTS in respect of a liability to an Adjacent Transmission System Operator (TSO) arising from a claim in respect of a loss by a User arising from a failure of an IA process under UNC;
- Incorporate relevant clauses from CSEP AAs within UNC;
- Introduce text into the CSEP AAs which terminate them; and

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<sup>1</sup> UNC Modifications 0493, 0500, 0510 and 0519 are required to implement capacity bundling, and Nominations matching and allocation

<sup>2</sup> These are supplementary agreements to UNC, in this case between National Grid NTS and IP Users. A User is required to become a signatory to the relevant CSEP Ancillary Agreement in order to become a Registered User at that particular IP

- Include provisions within UNC to address some specific issues in relation to the Moffat IP.
- There are no industry costs relating to this Modification.

## Relevant Objectives

The Proposer considers that implementation of this Modification would better facilitate achievement of the following relevant objective:

**g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.**

## Implementation

A specific implementation date is not proposed however this Modification needs to be implemented by 1st October 2015 to enable GB to be compliant with certain provisions of the EU Codes.

## Does this Modification impact an SCR or other significant industry change projects, if so, how?

This Modification is one of a suite of EU-driven UNC Modifications, which form an EU delivery programme. This is envisaged to be the final Modification needed to implement the package of EU-driven reforms to GB arrangements that are proposed to take effect from 1st October 2015.

## 2 Why Change?

The INT Code contains certain mandatory terms to be included within IAs, some of which affect Users. Accordingly, it requires the establishment and amendment of these sections of an IA to be subject to User consultation. The new sections, which need to be added to the existing IAs, are as follows:

- Matching of nominations;
- Allocation rules; and
- Communications in exceptional events

The above terms are not currently included within all the IAs because National Grid NTS is not presently involved in these processes. For example, allocation rules for the IPs currently reside in a contractual arrangement between the User and its User Agent, as specified in the respective CSEP AA; however, from 1st October 2015, it is envisaged that National Grid NTS will provide allocations to Users at the IPs under the arrangements contained in Modification Proposal 0510.

The provisions in the CSEP AAs are largely concerned with operational rules, and User Agent arrangements, which facilitate the calculation of User allocations. The former will be required post 1st October 2015 but the latter will not for the reasons outlined above. National Grid NTS considers that terminating the CSEP AAs and moving the operational rules into UNC would provide Users with a more efficient and visible change process for the provisions that need to endure, whilst also resolving difficulties it has experienced in the past associated with gaining signatures of Users to an amended CSEP AA.

UNC TPD Sections I2.2, J4.3.6 and J6.4 currently prevent National Grid NTS and an Adjacent TSO making changes to Network Entry Provisions (NEnPs) and/or Network Exit Provisions (NExPs) within an IA without prior consultation with Users. These existing provisions in UNC do not cover the new mandatory sections of the IAs that also affect Users. National Grid NTS considers that it is therefore necessary under the INT Code to amend the UNC requirements for User consultation to cover these new provisions. EU-driven changes to the IAs may also require consequential changes to NEnPs and NExPs. This Modification would also facilitate User consultation in respect of these sections in time to allow such amendments (which may or may not be further amended following such consultation) to be effected in IAs prior to 1st October 2015.

New obligations on National Grid NTS and its Adjacent TSOs resulting from the implementation of the EU Network Codes<sup>3</sup>, may also give rise to liability issues which the UNC needs to address, e.g. where the action of an Adjacent TSO through the nominations matching process places a liability on National Grid NTS or vice versa.

This Modification also seeks to address some unique issues in respect of the Moffat IP, where GNI (UK) formerly BGE (UK) is the licensed entity in respect of the interconnector, yet its capacity and shipper relationships are split between the system operators Gas Networks Ireland (GNI, formerly Gaslink) for the Republic of Ireland and Premier Transmission Limited (PTL) for Northern Ireland. Transportation arrangements with Shippers are made by GNI and PTL and this affects how the EU Code processes for capacity bundling, nominations matching and allocations will be carried out with National Grid NTS. This means that although there is one physical IP, certain aspects of these processes need to be carried out in respect of GNI's system and PTL's system separately and therefore UNC needs to recognise this.

Moreover, Moffat is the point at which gas physically leaves the NTS for delivery to the Stranraer LDZ via the GNI (UK) and PTL pipelines. The current arrangements for provision of gas to Stranraer are contained within UNC TPD Sections A and B and the CSEP AA for Moffat. As a result of the EU-driven changes to GB arrangements, the UNC treatment of this DN offtake has been reviewed by Workgroup participants (and between the TSOs and Scotia Gas Networks), and Stranraer will continue to remain separate from the new arrangements for capacity, nominations and allocations at IPs.

In summary, this Modification is needed in order to:

- Facilitate User consultations on IAs in respect of the three GB IPs prior to change being effected on 1st October 2015;
- Incorporate an enduring governance regime in UNC for future changes to IAs; and
- Address the consequential impacts for the GB regime as a result of certain EU Code provisions.

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<sup>3</sup> particularly the nomination matching process being introduced through Modification Proposal 0493 (EU Gas Balancing Code – Daily Nominations at Interconnection Points (IP))

### 3 Solution

The solution comprises of six sections:

#### Enable Users to be consulted on changes to the IAs that affect them outside of the UNC Modification process

National Grid NTS shall introduce text to the UNC Transition Document to enable it to carry out consultations on amendments to the IAs that affect Users prior to approval of this Modification. This will enable parallel, yet independent timeframes for the development of this Modification, IA negotiations and User consultation that results from those negotiations in order to facilitate changes to the IAs in time for 1st October 2015.

Mod Timeline to enable IA consultations

Modification 0525 - Enabling EU Compliant Interconnection Agreements Timeline							
	Apr	May	Jun	Jul	Aug	Sep	Oct
Workgroup - Mod development							
Workgroup Report to Mod Panel							
Mod Consultation							
BBL IA consultation							
IUK IA Consultation							
Moffat IA Consultation							
NG & Adjacent TSOs review consultation responses							
Feedback amendments related to Shipper responses							
Final Mod Report to Mod Panel							
Ofgem determination - Mod & IAs							
IA changes effective & AAs terminated							

IA Consultations will open individually for a 4-week window within the proposed timeframes.

#### Establish UNC governance arrangements for future amendments to the IAs that affect Users

National Grid NTS is obliged to consult with Users on any proposed new or amended clauses in an IA which may affect Users after 1st October 2015. The existing UNC principle for prior consultation with Users in respect of amendments to agreements between operators that they may be affected by, will thus be retained.

Where National Grid NTS and an Adjacent TSO do not agree on a change to a relevant interconnection provision which affect Users, National Grid NTS will raise a modification and seek to engage Users. This modification provides the Adjacent TSO with the ability to submit its point of view in the form of an alternate modification only in specific circumstances, which are:

- National Grid NTS has created a modification; and
- Relates to Relevant Interconnection Provisions

National Grid NTS will introduce a formal route to allow Users to request an amendment to a relevant interconnection provision of an IA. Users will have the ability to notify National Grid NTS of a problem, explaining their issue fully and proposing an IA amendment in order to resolve the adverse effect. Within thirty (30) business days after receiving such a notification National Grid NTS shall provide a response to the Shipper, as to the reasoning behind whether an action will be taken further and the next steps.

## **Inclusion of a liability provision within UNC**

National Grid NTS envisages a reciprocal indemnity between Adjacent TSOs where the IA so provides, to be included in the relevant IA. For National Grid NTS, such indemnity would apply in respect of any claim made in tort by a User relating to a failure of an IA process (under the UNC)

- capacity bundling;
- allocations and matching process;
- accepting delivery of gas;
- or to make available for offtake gas; or
- gas complying with specification

which a User may claim it incurred as a result of the Adjacent TSO's negligence in relation to its IA obligations. Such an indemnity would not apply where a User and the Adjacent TSO have a contract in place and such liability is dealt within that contract.

In order to enable National Grid NTS to give this indemnity to each Adjacent TSO, it is proposed that the UNC EID will include a clause that Users undertake not to make claims in tort against an Adjacent TSO, and to indemnify National Grid NTS in these specific circumstances if they do make such claims (for clarity, PTL and GNI (Ireland) will be treated as if they were Adjacent TSOs at the Moffat IP for the purposes of UNC only).

To address Shipper concerns specifically related to nominations, allocations and matching National Grid NTS will introduce a new process for the correction of errors by National Grid NTS or an Adjacent TSO. Where an error occurs a Shipper should identify the party responsible and contact them for an error correction no later than the end of the business day before the Exit Close-out date i.e. D+5.

## **Inclusion of relevant clauses from CSEP AAs within UNC EID**

National Grid NTS will transfer certain provisions from the CSEP AAs relevant to Users into UNC. This includes certain operational rules to the extent they are not redundant or replaced by the new rules already proposed under Modifications 0493 and 0500.

## **Provision of a clause to terminate the CSEP Ancillary Agreements**

It is necessary to introduce provisions within the CSEP AAs pursuant to UNC Section J6.6 which terminate them.

## **Moffat specific IA arrangements**

National Grid NTS will include provisions in UNC to address certain issues that arise from the multi-party nature of the Moffat IP in connection with the implementation of the new processes required for EU compliance. This will include:

- allowing an IP to be treated as if it were two separate IPs based on the models agreed for capacity bundling and the matching of nominations and allocations which the commercial arrangements need to reflect. Further explanation is provided below;

- a recognition that the licensed entity for the Moffat Interconnector and National Grid NTS' counterparty to the IA is not the same party(s) that have the commercial relationship with shippers; and
- consequential impacts for the processes needed to provide the Stranraer DN offtake with gas.

The TSO's and NRA's have agreed capacity bundling and matching rules between National Grid and its counterparties in line with the EU Codes which have now been finalised and are binding EU regulations. This Modification has been raised to make the models work in UNC.

**The following information is for clarification of the arrangements at the Moffat IP and will not be included within the legal text for this modification.**

National Grid NTS does not own any pipeline or equipment beyond Moffat. GNI (UK) is the owner of the pipeline which connects to National Grid NTS at Moffat and PTL's pipe branches off from this.

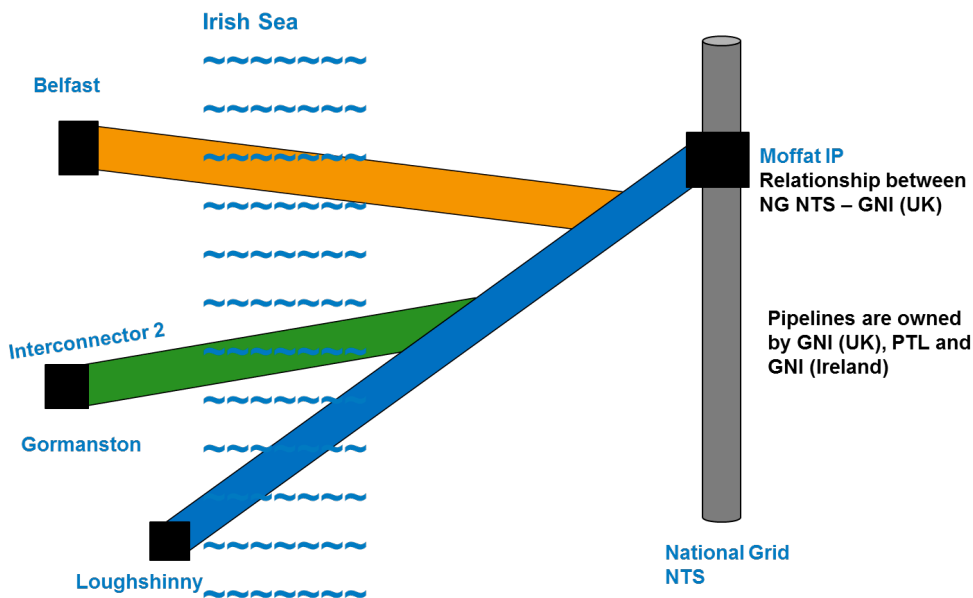
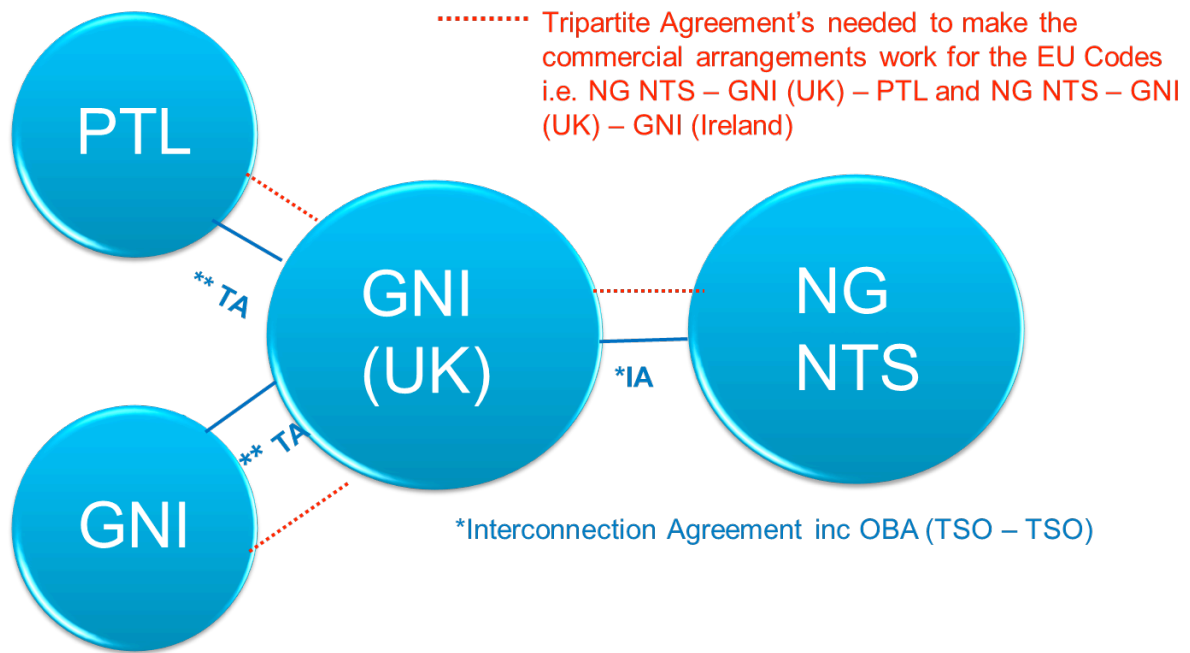


Diagram 1

The EU Codes envision a one to one TSO to TSO relationship and at a high level this is true of the Moffat IA between National Grid NTS and GNI (UK) as the two parties whose pipelines are physically connected at Moffat. However, in order to make capacity bundling and matching work. National Grid NTS need commercial relationships with PTL and GNI (Ireland) to facilitate the arrangements with Users. Diagram 2 below outlines the contractual relationships required to meet the EU Code working arrangements.





\*\*Transportation Agreement (TA) is the means by which GNI (UK) allocates capacity to the entities that have the relationship i.e. BGE (UK) – PTL and GNI (UK) – GNI (Ireland)

Diagram 2 – Contractual relationships for Moffat

Capacity booking for Moffat will change as a result of CAM so that in future there will be bundled and unbundled capacity available for booking PTL and GNI (Ireland) capacity via PRISMA. Diagram 3 demonstrates how the process will work for bundled capacity; National Grid NTS – PTL for NI and National Grid NTS and GNI (Ireland) for Rol.

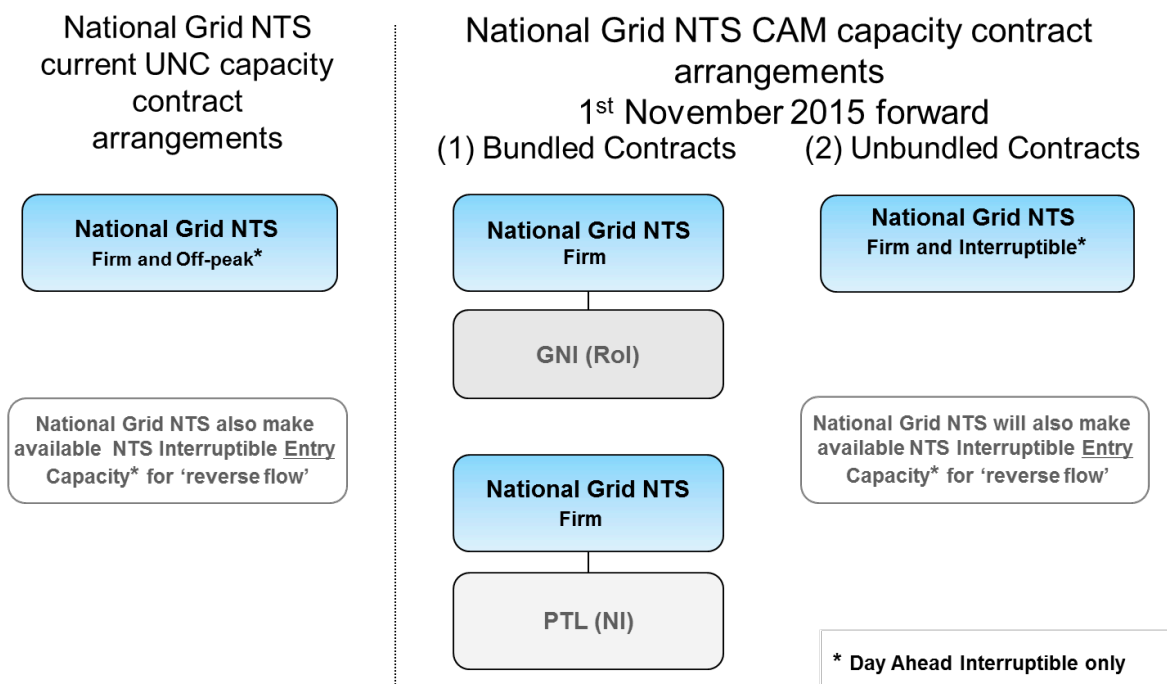


Diagram 3 – Capacity booking for Moffat pre and post EU Codes implementation.

Nominations post 1<sup>st</sup> October 2015 will be either single or double sided: a single sided nomination will be sent to National Grid (initiating TSO for Exit) specifying PTL or GNI (Ireland) (for Entry and matching) and a double sided nomination to National Grid NTS (initiating) and either PTL or GNI (Ireland) for (Matching). The process for the Bacton IP is a 1-2-1 arrangement between the TSOs whereby National Grid NTS is the initiating TSO and the Adjacent TSO carries out the matching of nominations.

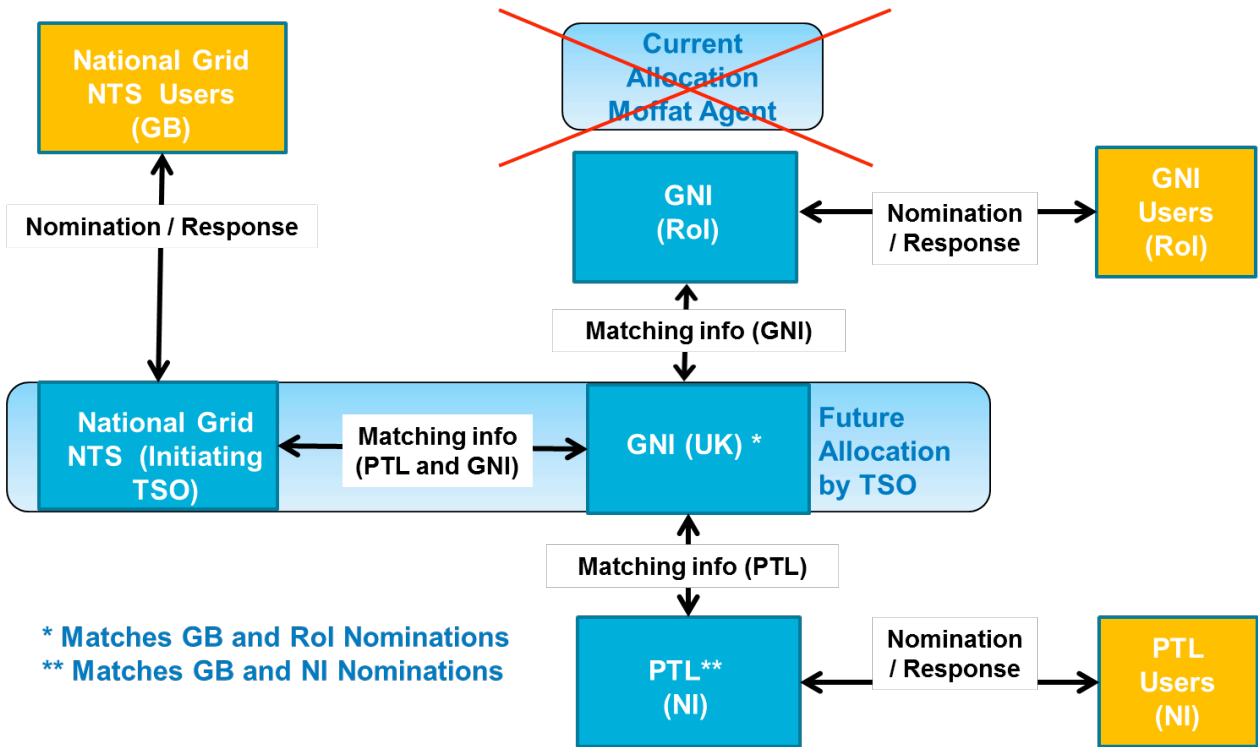


Diagram 4 – Nominations and allocations pre and post EU Code implementation.

Specific provisions need to be created for the Moffat IP so that the rules agreed within UNC reflect the different relationships and multiple parties involved in the matching and allocation process.

Stranraer LDZ offtakes gas from PTL's pipeline which is accounted for within the GB total system as DM load and LDZ demand attribution. Therefore, Stranraer as a DN offtake is not required to comply with the EU Codes in GB and the arrangements continue for Stranraer to be kept separate from the new arrangements for capacity, nomination and allocation that are being introduced for the IPs

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this Modification and it is not, therefore, classified as a User Pays Modification. The changes are contractual not system based.

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	N/A
Proposed charge(s) for application of User Pays charges to Shippers.	N/A
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	N/A

## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive

### Relevant Objective (g)

This Modification furthers Relevant Objective g) Compliance with the Regulation as it sets out the arrangements to be applied at IPs that are consistent with the EU INT Code. The Workgroup considers that these arrangements are consistent with the 'minimum change' principle for EU changes impacting the UNC.

In respect of the Moffat IP, the modification also clarifies how the requirements of EU Codes BAL, CAM and CMP will be given effect.

## 5 Implementation

A specific implementation date is not proposed however this Modification needs to be implemented by 1st October 2015 to enable GB to be compliant with certain provisions of the EU Codes.

## 6 Impacts

### Does this modification impact an SCR or other significant industry change projects, if so, how?

This Modification is one of a suite of EU-driven UNC Modifications, which form an EU delivery programme. This is envisaged to be the final Modification needed to implement the package of EU-driven reforms to GB arrangements that are proposed to take effect from 1st October 2015.

## 7 Legal Text

### Text Commentary

The associated commentary has been provided as a separate document published alongside this report.

### Text

The Legal Text has been published alongside this report.

## 8 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for Consultation.