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11th August 2005

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Joint Office of Gas Transporters
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UNC Modification Proposal 0005
"Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the
Relevant Transporter"

Dear Julian,

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

Transco opposes implementation. Transco's opinion is that the Proposal does not facilitate its GT Licence 'relevant objective' of 'the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters'. We have set out our rationale for this below:

General

The Proposer claims that *'Without this modification shippers, suppliers and consumers will not have a right to a supply at any pressure above 21 mbar irrespective of the physical pressures in the vicinity of the service'*. This comment is misleading. UNC Sections J2.2.4 and J2.2.5 establish that Users may propose to the Relevant Transporter to enter into an Ancillary Agreement for a specified pressure. The critical criteria for the sustainability of such an agreement is the economic efficiency of the solution available to meet the consumers needs. This would consider whether reinforcement of the Transporters System or investment in compression equipment by the consumer meets the best and most efficient ongoing method of operating the System in the interests of consumers. Transco's opinion is that this process is dynamic and should be maintained under constant review. This would at all times take into consideration the economic operation of the pipeline system in the interests of the industry.

The Proposer asserts that *"Where a consumer has arranged for a higher pressure than 21 mbar at their ECV they will have invested in plant and equipment that requires the higher pressure in order to operate. Permanent reduction in the pressure at the ECV will render the investment in plant useless without additional investment in compression equipment and the possible loss of production for the time between the reduction in pressure and the installation and commissioning of suitable compression facilities"*.

Transco's response is that in the event that a reduction in the agreed elevated pressure became necessary, this would only be enacted in accordance with the terms of the pressure Ancillary Agreement (agreed notice periods, etc). Transco's opinion is that no Transporter is in a position to provide an open ended 'guarantee' of enhanced pressure which ignored the economic and efficient operation of its pipeline system in perpetuity. To do so would conflict with the Transporters obligations under Standard Special Condition A11 paragraphs 1a & b of its GT Licence (detailed above).

Enhanced (Elevated) pressure

The Modification Proposal seeks *'to place an obligation on the relevant Gas Transporter to agree to provide pressure in excess of 21 mbar at the ECV of a service where this can be physically supported under normal operating conditions'*.

Terms of the Ancillary Agreement

Transco is not and has never been able to 'guarantee' elevated pressures. Contrary to the claims of the Proposer the UNC does not provide any 'guarantee of pressure for...low pressure sites'. Furthermore a Network Exit Agreement (NExA) does not 'guarantee' a pressure as claimed by the Proposer.

Transco has established procedures by which a request can be made to obtain the pressures and gas flow rate that the service pipe is designed to supply at the outlet of the emergency control valve (ECV). The standard operational pressures for each pressure tier are contained within document T/PM/GT/1. These pressures were published to the industry and appear in the IGE document IGE/GM/8. These constitute the design operation pressures pertinent to each tier.

Transco is willing and able to enter into an Ancillary Agreement but is firmly of the view that such an agreement must feature:

1. Provisions that such pressures are provided on a case by case basis and where it is reasonable to do so. Note: Transco currently offers elevated pressures free of charge on this premise.
2. Provisions permitting termination or modification of the agreement (with adequate notice) by either contracted party.
3. An agreed period following which review and, if necessary, renegotiation would be required.
4. Allowance for the most economic solution for any pressure provision to be ascertained. This may involve consumer boosters or compressors.

Economic and efficient operation – normal operating conditions

Transco believes that this Modification Proposal is wholly inconsistent with its obligations as a Transporter to operate and maintain its pipeline system economically and efficiently.

The circumstances which dictate the need for System reinforcement will be unique for each site. Therefore a site-specific assessment is required, increasing the cost of processing the siteworks request above a 'normal' enquiry. Additionally, work is needed to evaluate customer downstream options in order to ensure that the most efficient 'least industry cost' solution is delivered.

Any commitment provided by Transco to provide elevated pressure could only be agreed where it is reasonable to do so. This would typically reflect a pressure seen at peak operating conditions and could not be 'guaranteed'.

Network Exit Agreements (NExAs)

The Proposer identifies the need for Ancillary Agreements to be 'enduring' (Transco assumes this to mean that Transporters are required to 'guarantee the pressure 'ad infinitum'). During debate within the UNC Distribution Workstream the Proposer claimed that this would be analogous to a NExA in that such

agreements are enduring. Transco challenges this assertion and notes that the UNC Section J4.3.2(b) identifies that the *'Network Exit Provisions may also provide for.....terms according to which and circumstances in which the Network Exit Provisions may be terminated or expire'*.

NExAs do not commit the Transporter to enduring obligations to Users or consumers. They are a means by which various transportation measures and operating issues are addressed so there is no true analogy with an enduring pressure requirement.

It is true that the UNC contemplates a Supply Point NExA between a Transporter and a gas plant operator or consumer but this is only to facilitate Network code obligations on shippers under the UNC and to permit cooperation with plant operators/consumers. It does not impose transportation obligations on the Transporter nor shipper obligations on the consumer, nor does it contain a pressure guarantee. Therefore a NExA is not analogous to this proposal.

Volume

Transco is concerned that there could be a significant 'start up' issue associated with requests for Ancillary Agreements.

An example of this impact is that the models of the networks have 'flags' indicating the presence of Ancillary Agreements. When model for a new load enquiry is required these flags will identify the need for individual attention relating to agreed elevated pressures. If a large number of pressure agreements are negotiated the situation could become difficult to manage.

'Grandfather rights'

The Modification Proposal seeks *"to place the obligation on the relevant Gas Transporter to maintain a pressure in excess of the statutory minimum at the ECV of a service where an agreement exists to provide an agreed pressure"*.

Legislation

No 'statutory minimum' pressure exists. Under the Gas Safety (Management) Regulations 1996 Transporters are required to meet the following obligation: *'The gas shall be at a suitable pressure to ensure the safe operation of any gas appliance (within the meaning of regulation 2(1) of the 1994 Regulations) which a consumer could reasonably be expected to operate'*.

Existing agreement

Within the UNC Distribution Workstream, the Proposer identified that in the event that the Transporter or its predecessors had set and sealed the Pressure Regulator at an elevated pressure at any point in time, this constituted an 'agreement' and in this event the Transporter is obliged to maintain and 'guarantee' such pressure to the Supply Meter Point indefinitely (irrespective of the economic efficiency of any such arrangement).

This requirement, which the Proposer identifies as a 'no change' situation is unacceptable for the following reasons:

Definition of agreement

Transco accepts that it may have previously set and sealed the Pressure Regulator to reflect an elevated pressure in the consumer's interests. It is also possible that the consumer may have commissioned siteworks to reflect the availability of enhanced pressure. Transco has consistently maintained within the UNC Distribution Workstream that it would view such

arrangements sympathetically and on a 'case by case' basis. However, to date no evidence written or otherwise has been given to Transco to support the above claims.

Transco does not believe that the setting of pressure establishes an 'agreement' as stated by the Proposer. Transco's view is that evidence would need to be made available, either written or details of any correspondence between the User and Transco which would confirm an oral agreement was established.

Ancillary Agreements

The UNC Section J clearly sets out the obligation on Users to approach the Transporter where elevated pressure is required. Transco has received no such approaches concerning a 'grandfather rights' scenario. During Workstream discussions it was claimed that the reason for this was that the relevant parties were unaware of these provision. Transco's view is that an unawareness of the terms of transportation contract cannot be used as a reason by Users for failing to propose to Transco to enter into an Ancillary Agreement.

Low pressure networks

The Modification Proposal seeks to oblige Transporters to provide pressure in excess of 21 mbar. Operating pressures of 21.5 mbar may occur, during normal operation, at the outlet of the ECV on parts of low pressure networks. Transco has made clear within the UNC Distribution Workstream the position that it is unable to offer elevated pressure at a Supply Meter Point located on a Low Pressure network. This is because prudent management of the network and non routine operations affect the available pressure away from peak; some systems automatically reduce the source pressure away from peak in order to minimise leakage. In the summer with very low demand on the system the extremity of the network can be maintained at a suitable pressure for the supply to 'normal' consumers with 24 mbar at the source, a pressure commitment above 24 mbar for 'special' use (i.e. an non domestic requirement, e.g. a bakery) would unduly constrain the network and lead to additional shrinkage costs absorbed by the whole community.

Cross subsidy

Transporters would be obliged to maintain elevated pressures under some form of indefinite guarantee. This would result in some customers being cross subsidised because where investment was required to maintain the elevated pressure (under the 'grandfather rights' scenario). That consumer could not be charged. Instead the consumer population would have to fund the work. Appendix 1 illustrates typical cost implications of a Transporter being obliged to 'guarantee' an elevated pressure.

Network analysis

Transco is concerned about the potential complexity needed in Network Analysis models to flag 'elevated pressure' agreements. This is relevant to network analysis for reinforcement, operational planning for mains replacement and detailed analysis for non-routine operations. The presence of 'guaranteed' elevated pressures would add enormous complexity to the process and likely IS expenditure to deliver a sophisticated system.

Operationally, settings of Pressure Regulators would need a great deal of thought to ensure set point pressures are maintained in the mid point of a network - particularly in multi-fed networks where it is easy to 'back out' governors. Closed loop control systems would similarly be affected and need modification.

Additionally, average system pressures are used to derive shrinkage levels and above average pressures, cause increased public reported escapes (PREs). Maintenance of higher system pressures could increase network levels of risk (consequences of regulator failure and over gassing leading to CO issues - increased likelihood of gas ingress following a fracture, etc). Transco's opinion is that any 'fixed guarantee' as in the

'grandfather rights' scenario may cause far more cost to maintain than would be immediately apparent from incremental reinforcement concerns.

Contractual arrangements with end consumers

The proposal advocates a direct contractual relationship with an end consumer. The gas transportation regime has been set up on the basis that Transporters contract with shippers or Distribution Network Operator users pursuant to the UNC and their respective licence obligations. This is why pressure provisions are contained within the UNC and not elsewhere and why an Ancillary Agreement with shippers is permitted. A direct contractual relationship with end consumers is not contemplated by this regime. Such a relationship runs the risk of conflicting with UNC obligations.

Part 1, Section 5(1)(c) of the Gas Act 1995 identifies that *"any person who arranges with a gas transporter for gas to be introduced into, conveyed by means of or taken out of a pipe-line system operated by that transporter, shall be guilty of an offence unless he is authorised to do so by licence"*.

To the extent that a pressure requirements relationship with consumers could be regarded as an activity of this nature, then the consumer would need a shipper licence or an exemption. Failure to obtain this would put the consumer in breach of the Gas Act and the consumer would be guilty of an offence under Part 1 Section 5(3).

Irrespective of the above concern, Transco believes that it would be essential that certain rights were reflected within the UNC detailing a User's obligations with regard to facilitating this process. Transporters have no other contractual arrangements with end consumers and therefore the input of the User would be vital in establishing such a relationship. The end consumer has no obligation to adhere to the terms of the UNC, therefore, the terms of such an agreement would have to be separately negotiated which would be time consuming and in certain cases unworkable. An agreement with an end consumer opposes the existing regime by which the Transporter has a transparent relationship with the User and deviating from this would oppose the basis of the relationship between the Transporters and Users.

The Modification Proposal is not specific on whether the existing UNC provisions enabling a User to enter into a pressure Ancillary Agreement with Transporters should be removed.

In summary, Transco believes

- ❑ Establishing contractual relationships between Transporters and end consumers as advocated by this Modification Proposal would contravene the Gas Act.
- ❑ 'Guaranteeing' elevated pressure would lead to uneconomic/inefficient investment and cross-subsidy.
- ❑ Providing guarantees of pressure in perpetuity (as would be the case under the 'grandfather rights' scenario, without organisations being obliged to pay the economic cost of maintaining such agreements, is contrary to Transco's Licence and Gas Act obligations because costs are incurred that are not charged to those incurring them.
- ❑ The Transportation System is dynamic and Transporters need to be able to respond economically.

Please contact Chris Warner on 01926 653541 (chris.warner@ngtuk.com) should you require any further information with respect to this representation.

Yours sincerely

Declan McLaughlin
Commercial Manager – Customer Service
National Grid Transco

Appendix 1

The following examples show the potential financial impact of implementing Modification Proposal 0005. These are sites where Transco has a pressure agreement with an independent Gas Transporter (iGT) through the CSEP NExA process. The terms of the NExA permits the parties involved to renegotiate the pressure as it is understood that such pressures quoted are provided on a 'reasonable endeavours' basis. The example reinforcements shown below would not be required in actuality. However, for the purposes of this example it has been assumed that the requirements stated in the Modification Proposal have been applied and the pressure quoted would have to be maintained on a permanent basis:

1. Medium Pressure - 2 bar system (maximum operating pressure).
The quoted elevated pressure was 1.87bar. When analysing the demand over the 5 year planning horizon, to maintain the quoted pressure, the following reinforcement costs would be incurred:

400mm PE - 7313metres
Cost - £2,024,466.45
2. Medium Pressure - 350mbar system (maximum operating pressure).
The quoted elevated pressure was 290mbar. When analysing the demand over the 5 year planning horizon to maintain the quoted pressure the following reinforcement costs would be incurred:

400mm PE – 873 metres
315mm PE – 1636 metres
Cost - £620,968
3. Local Transmission Storage main 70 bar – 20.4bar
The consumer currently has a connection from a 36” steel pipe to supply an elevated pressure of 34bar that the consumer currently uses on a 'reasonable endeavours' basis. On the basis shown in the Modification Proposal would require a connection from the National Transmission System (NTS) the cost of which would be as follows:

Main Contractors
Sub Contractors
Specialist Support
Design Works
Materials
Cost - £4,238,927 + compressor