

0646R OAD Review Group Proposal for Redundant Assets

Darren Dunkley
Cadent Gas Limited

0646R OAD Review Group

Proposal for Redundant Assets

Background

Under the current provisions of OAD a site user can install their assets at an offtake site providing consent is given by the site owner. Following installation, the site user then has rights to leave these deployed assets in place until a time when they decide to remove or replace them.

There are currently no provisions given to the site owner that enables them to request a site user to remove any asset residing on their land/property. OAD currently only allows such dialogue to take place when:

- a site user raises an OAD notice to cover replacement or alteration. Here, a site owner can request the assets are relocated to site users' land but this is seen as difficult and sometimes not possible due to the location of the offtake sites, their physical configurations, and surrounding land requirements and other restrictions;

or

- when an asset is causing a clear safety issue on site. The likelihood in this scenario is that appropriate remediation and/or isolation of the asset will take place until a more permanent solution can be funded. This will then require a formal OAD notice before the permanent solution is deployed.

It is common practice between gas network operators to isolate and decommission assets when they are not needed and leave these in place providing that they do not create a process safety risk for them or another network operator. ~~It is seen across the board~~ All operators consider this as a better investment decision given that the cost of removal can be significant and that such costs are ~~it is~~ ultimately passed onto consumers as part of the transportation charge.

Whilst the industry norm of abandoning assets in place is generally accepted, it is felt that the site owner should not have to bear the cost of removing site user assets when there is a clear need to do so. Any prudent operator should include the cost of asset disposal as part of their asset management system and overall strategy, and therefore for another operator to incur this cost may be construed as cross subsidisation between licensees.

There are other reasons why site users should remove redundant assets. The key ones are:

- the removal and disposal of assets should be undertaken in accordance with an operators' engineering policy and procedures, and also in line with financial accounting requirements. Some assets may still have an asset

valve and these need to be treated accordingly within an operators financial accounts, especially if it will be disposed of.

- Each operator may have differing approaches and thus policies and procedures for the safe removal of assets. For one operator to remove another operators asset, this will require working on a network system for which they do not have the right competence and authorisation in terms of permitry, and if the work does not meet the required standard as a result further work and cost may have to be incurred.
- All gas network operators are affected by obsolescence. In an industry environment where grey spares are scarce to source, operators may need to refurbish and relocate assets they have in place from one site to another in order to keep their network running, or avoid a costly replacement with a different asset.

Objective

Whilst rights are currently granted to site users so that they can leave assets in place, additional clauses are required that will provide an avenue for a site owner to formally request the removal of site users assets from their land

OAD requires amending to provide fair and equitable arrangements for both site owners and site users in relation to removing assets, especially those that are seen to be redundant.

Proposal

A site owner may request the removal of an asset, or a redundant asset when:

- an asset is causing a credible risk to the health and well-being of all staff that have to work or visit site. This includes assets that are clearly non-compliant with health & safety legislation and/or industry standards
- an asset is causing a credible risk to the safe operation of transporting gas at a site
- an asset has a credible impact upon the gas operations of another network operator
- the site owner requires the re-use of land or property, where space is of a premium and assets that are currently in place have been seen to be notn-operational ~~been-used~~ for 12 months or more
- any other credible and tangible risk that develops, as clearly defined and articulated by the site owner

The request must be in writing. Upon receipt the site user will consider the impacts of the request. The site user will not unwillingly delay its response to the request and will then engage with the site owner to seek a way forward that is equitable for both operators.

For the removal of assets where the need is based upon health, safety or operational reasons, this cost should be solely at the expense of the site user. For all other requests, the cost for the removing the affected assets must be

identified and agreed upfront, before it is shared equally between the parties or based upon an economic test where it is felt it is necessary.

A site user may allow the site owner to remove the agreed assets on their behalf subject to the application of the required engineering governance. The cost or shared cost will then be recovered via the provisions under Section L.

Disputes are to be resolved via the appropriate escalation between parties. If this fails, the parties will seek settlement arbitration via an independent third party arbitration process, ~~can be sought via the Offtake Committee~~.

Action

Operators are asked to review the proposal above taking into account the background information and the objective set, and provide feedback at the next Industry Review Group (0646R).

The intent is this document will set out the principles for addressing the issues concerning redundant assets or assets in general, so that this can then be codified under UNC OAD at a later date.

