

# 0553:

## Removal of National Grid LNG Storage UNC TPD Section Z obligations and associated cross references

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

Operational activity is to cease at National Grid’s last remaining LNG Storage Facility, Avonmouth at the end of April 2016. This modification proposes to remove the Section Z obligations on National Grid LNG Storage, remove in entirety Section Z: National Grid LNG Storage Facilities and remove and amend cross references within UNC TPD to Section Z and National Grid LNG Storage Facilities.



Panel consideration is due on 19 November 2015



High Impact: None



Medium Impact: None



Low Impact: Shippers and Transporters

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<b>About this document:</b>														
<p>This Final Modification Report will be presented to the Panel on 19 November 2015. The Authority will consider the Panel's recommendation and decide whether or not this change should be made.</p>														
<p>The Workgroup recommended the following timetable:</p> <table border="1"> <tr> <td>Initial consideration by Workgroup</td> <td>03 September 2015</td> </tr> <tr> <td>Workgroup Report presented to Panel</td> <td>15 October 2015</td> </tr> <tr> <td>Draft Modification Report issued for consultation</td> <td>15 October 2015</td> </tr> <tr> <td>Consultation Close-out for representations</td> <td>05 November 2015</td> </tr> <tr> <td>Final Modification Report published for Panel</td> <td>06 November 2015</td> </tr> <tr> <td>UNC Modification Panel recommendation</td> <td>19 November 2015</td> </tr> </table>		Initial consideration by Workgroup	03 September 2015	Workgroup Report presented to Panel	15 October 2015	Draft Modification Report issued for consultation	15 October 2015	Consultation Close-out for representations	05 November 2015	Final Modification Report published for Panel	06 November 2015	UNC Modification Panel recommendation	19 November 2015	
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UNC Modification Panel recommendation	19 November 2015													

## 1 Summary

## Is this a Self-Governance Modification?

National Grid LNG Storage believed that this modification should be Self-Governance as it is unlikely to have a material impact on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes because it is simply the mechanics to complete the necessary governance (removal of Section Z and references to Section Z and National Grid LNG Storage) resulting from the consultation and previous announcement National Grid LNG Storage's last remaining facility, Avonmouth, will cease operational activity on gas day 30 April 2016.

Some Workgroup participants believed that this modification should not be considered as self governance because there could be a material impact upon consumers. An accurate assessment of the materiality is difficult, since it relates to the stranded liquefaction costs of gas remaining in the facility at closure. This quantity of gas is very much dependent on the consumption (primarily weather-related) in the winter 2015/16. Participants heard that stranded liquefaction relating to the remaining gas could be in the range £50k to £60k of already-paid costs to GB consumers.

## Why Change?

Following a stakeholder consultation National Grid LNG Storage announced on 27 February 2015 the last remaining National Grid LNG Storage facility, Avonmouth, will cease operational activity on gas day 30 April 2016. This proposal addresses only the UNC-related consequences of the closure.

UNC TPD Section Z specifically relates to National Grid LNG Storage Facilities and will no longer be required or relevant.

## Solution

This modification proposes to remove existing UNC TPD Section Z obligations on National Grid LNG Storage and remove in entirety Section Z: National Grid LNG Storage Facilities. Throughout UNC TPD there are references to National Grid LNG Storage and Section Z that will require amendment or removal as part of housekeeping and these amendment proposals are also part of this proposal. The modification will also include a new provision to allow National Grid LNG Storage to deal with any gas left in storage by Users during the decommissioning process.

## Relevant Objectives

This modification furthers Relevant Objective f) Promotion of efficiency in the implementation and administration of the Code, as it aims to remove superfluous references to National Grid LNG Storage and UNC TPD Section Z and thereby remove any uncertainty relating to the existence of National Grid LNG Storage facilities within UNC.

## Implementation

National Grid LNG Storage requested this Code Modification be implemented no later than 01 March 2016.

The Workgroup has not proposed a timescale for implementation of this modification, but would suggest that it is implemented at the earliest practical opportunity.

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no expected impacts on an SCR or other significant industry change projects.

## 2 Why Change

### Background

Avonmouth is the last remaining of five LNG Storage facilities built in the 1970s and 1980s. The original purpose of these facilities was to provide Transmission support at the extremities of National Grid's (NG) high pressure pipeline network. As the topography of pipeline networks and gas supplies into the UK have materially developed over the decades, the Isle of Grain facility was converted to a LNG importation terminal in 2005 and the other LNG Storage sites have closed. The last remaining National Grid LNG Storage facility, Avonmouth, primarily provides services for customers wishing to reload LNG onto road tankers.

The Avonmouth facility is characterised by assets approaching the end of their technical life (30+ years). Although safe, and in spite of significant inspection, maintenance and strategic spares provisions, the site has experienced a number of failures of its process plant in recent years. Most recently, unplanned outages were necessitated in the summer of 2014, December 2014, February 2015 and May/June 2015. For many years LNG Storage has engaged with customers and stakeholders emphasising the resilience risks and importance of implementing alternative arrangements.

In light of the above, and as a prudent operator, NG proposed to accelerate the planned Avonmouth April 2018 closure date to April 2016. The cessation of operations at the Avonmouth LNG Storage facility on gas day 30 April 2016 was seen as the only credible option to provide a clear closure timeline and minimise disruption to customers and consumers through unplanned failure.

On 27 November 2014 National Grid LNG Storage announced the launch of a stakeholder consultation on the proposal to cease operational activity at Avonmouth at the end of April 2016; the consultation ran to 16 January 2015. The stakeholder consultation documents are available at the following location: <http://www2.nationalgrid.com/UK/Services/LNG-Storage/consultation>. In developing this strategy, and prior to the start of the consultation period, National Grid LNG Storage engaged with both DECC and OFGEM. In addition, the consultation was discussed as an agenda item on both the December 2014 and February 2015 Joint Office of Gas Transporters UNC Transmission Workgroup meetings.

Following the stakeholder consultation, National Grid LNG Storage announced on 27 February 2015 that the last remaining National Grid LNG Storage facility, Avonmouth, would cease operational activity on gas day 30 April 2016. This announcement provided customers with a clear timeline to implement alternative arrangements and continue to ensure security of supply to their consumers who depend on re-gasified LNG.

UNC TPD Section Z specifically relates to National Grid LNG Storage Facilities. As Avonmouth, the last remaining National Grid LNG Storage Facility, will cease operational activity on gas day 30 April 2016 it is sensible to remove existing Section Z obligations on National Grid LNG Storage and make clear in regard to UNC Section Z, Section 3 that no capacity will be available or offered for Storage Year 2016/2017 or for any future years. This proposed Code Modification also takes into consideration the references to National Grid LNG Storage and Section Z throughout UNC TPD.

### 3 Solution

UNC TPD Section Z specifically relates to National Grid LNG Storage Facilities therefore with the closure of the Avonmouth facility UNC TPD Section Z will no longer be required or relevant. This modification proposes to remove Section Z and amend sections throughout UNC TPD that refer to Section Z, National Grid LNG Storage and named National LNG Storage facilities once the Avonmouth facility has been decommissioned through National Grid LNG Storage serving a notice on the Code Administrator.

To reflect that the Avonmouth facility will not be operational after 01 May 2016 the obligation on National Grid LNG Storage to invite applications for the Storage Year commencing on 01 May 2016 will be removed from UNC TPD Section Z and a provision allowing National Grid LNG Storage the right to nominate withdrawals on behalf of Users who have gas in storage as of 01 May 2016 during the decommissioning period will be added to UNC TPD Section Z.

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.
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.	Positive
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.	None

This modification furthers Relevant Objective f) as it aims to remove superfluous references to National Grid LNG Storage and UNC TPD Section Z and thereby remove any uncertainty relating to the existence of National Grid LNG Storage facilities within UNC.

No further impacts to the Relevant Objectives are expected from this proposal because it only addresses the consequential impact on the UNC of the closure of Avonmouth (i.e. and not the closure itself).

## 5 Implementation

National Grid LNG Storage requested that this Code Modification be implemented prior to 01 March 2016.

The Workgroup has not proposed a timescale for implementation of this modification, but would suggest that it is implemented at the earliest practical opportunity.

## 6 Impacts

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no expected impacts on an SCR or other significant industry change projects.

### Other Impacts

Panel requested that the Workgroup considered whether there were any wider issues resulting from the closure that should be addressed, and to indicate how such matters should be progressed.

#### NTS Capacity

NTS Capacity is outwith the scope of this proposal. National Grid NTS has Licence and UNC obligations relating to capacity and confirmed to the Workgroup that they would be happy to support any wider discussions parties believe are necessary to consider any wider impacts.

#### UNC Section Y Charging

It was understood by some participants that, once closed, Avonmouth (as Glen Mavis and Partington before it) would still appear in National Grid NTS' Licence and therefore in the charging methodology. Recognising that this was also outwith the scope of this modification, the Workgroup believed this potentially could have wider implications that should be considered by the NTS Charging Methodology Forum and the matter was placed on the 29 September 2015 agenda of this group.

#### Scotia Gas Networks' gas left in storage at Avonmouth at the End of the 2015/16 Storage Year

Section Z 3.6, Gas left in storage, has previously enabled Scotia Gas Networks (SGN) to carry stock inventory over from the preceding Storage Year to the new Storage Year. Following Avonmouth's closure on 30th April 2016 Available Storage Space will no longer be available at the site and there will no longer be the option to, or obligation on, National Grid LNG Storage Avonmouth to offer a 'Gas left in storage' service after this date (Section Z: 3.6.1.).

It is envisaged SGN will be the only tanker operator with inventory at Avonmouth when the site ceases operational activity in April 2016. SGN are managing their inventory accordingly to ensure security of supply to the Scottish Independent Networks while minimising Avonmouth LNG stocks at the closure date. On the 01st May 2016 any remaining LNG gas attributed to SGN will be allocated back to the Shipper community.

SGN pay the prices set out in National Grid's NTS' Licence Special Condition 11E for the supply of services, including liquefaction costs, for Tanker Filling Arrangements (Section Z: 3.3.). The liquefaction charge is a pass through cost to cover power and other operational costs; thereby a sunk cost to both parties. Reimbursement for National Grid LNG's remaining inventory liquefaction cost is outside the jurisdiction of the both this modification and NG LNG Storage.

#### Road Tankering

Alternative tankering facilities are available in Zeebrugge and Gate, and are expected to be available at National Grid's Grain facility later in 2015. Nitrogen ballasting equipment is due to be installed at the four Scottish Independent Networks (Scotia Gas Networks sites) by the end of 2018 to address gas quality issues with the other sources identified. In the interim, discussions are ongoing with the Health and Safety Executive regarding exemptions to the Gas Safety (Management) Regulations until these ballasting facilities are commissioned. These discussions are not expected to conclude before January 2016.

#### Avonmouth Closure Decision

All documentation relating to the background and subsequent commercial decision to close this facility can be found here: <http://www2.nationalgrid.com/UK/Services/LNG-Storage/consultation/>.

## 7 Legal Text

### Text Commentary

The additional wording in TPD Section Z paragraph 3.1.1 makes it clear that National Grid LNG Storage will not be inviting applications for Storage Capacity for future Storage Years.

The new paragraph 6.4.7 allows National Grid LNG Storage to make withdrawal nominations during decommissioning on behalf of Users if a User has gas left in storage on 1 May 2016.

Section Z governs arrangements between Shippers and National Grid LNG Storage. As there will be no operational National Grid LNG Storage Facilities the entire section can be deleted and references in other parts of the UNC to National Grid LNG Storage Facilities can be deleted once the decommissioning process has been completed. National Grid LNG Storage will notify the Code Administrator once decommissioning has occurred and Section Z and other references will be removed from the UNC TPD following such notification. To the extent there is any outstanding matter relating to National Grid LNG at the point section Z is removed then the additional paragraph 21.2 in the Transition Document provides that the matter should be resolved in accordance with the terms of the UNC TPD as at 30 April 2016.

### Text

The following Text has been prepared by National Grid NTS, and no issues were raised by the Workgroup regarding its content.

The 'Supporting Information' table referred to in TD 21.1.2 below is published alongside this Report.

### Transportation Principal Document

#### SECTION Z - NATIONAL GRID LNG STORAGE FACILITIES

*Insert new wording in UNC TPD Section Z paragraph 3.1:*

3.1.1 For each Storage Year prior to the Storage Year ending on 30 April 2016 National Grid LNG Storage will, not later than 1 March in the Preceding Storage Year, invite (in accordance with paragraph 3.1.2) applications for Storage Capacity in each National Grid LNG Storage Facility.

*Insert a new paragraph in UNC TPD Section Z paragraph 6.4.7:*

6.4.7 Any User who has gas-in-storage on the Gas Flow Day 1 May 2016 "Decommissioning Gas in Storage" will be deemed to have given National Grid LNG the authority to make a Storage Withdrawal Nomination in respect of that User's Decommissioning Gas in Storage. Such authority will be capable of being exercised by National Grid LNG in the period from 1 May 2016 to 1 August 2016.

### Transition Document

#### PART IIC – TRANSITIONAL RULES

*Insert new paragraph 21 in Transition Document Part IIC (Transitional Rules) as follow:*

#### **21 CESSATION OF OPERATIONAL ACTIVITY AT AVONMOUTH STORAGE FACILITY**

**21.1 Following Avonmouth Storage Facility ceasing operational activity on Gas Flow Day commencing on 30 April 2016, once National Grid LNG is satisfied that the decommissioning process at Avonmouth Storage Facility is sufficiently progressed that references to National Grid LNG**

Storage Facilities are no longer required in the UNC TPD, it may serve a notice on the Code Administrator requesting it to:

21.1.1 delete UNC TPD Section Z in its entirety and replace it with the words “Not Used.”; and

21.1.2 make the changes to the other Sections of UNC TPD as set out in the table annexed to modification 0553.

21.2 Following the deletion of UNC TPD Section Z in accordance with paragraph 21.1, to the extent there is any outstanding matter relating to National Grid LNG Storage Facilities, such matter shall be resolved in accordance with the terms of UNC TPD in force as at 30 April 2016.

## 8 Consultation Responses

Of the 4 representations received 3 supported implementation and 1 provided comments.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
British Gas Trading Ltd	Support	f) - positive	<ul style="list-style-type: none"> <li>Recognises that it is important to ensure that the Uniform Network Code (UNC) is kept up to date.</li> <li>BGT believes that the proposal should be granted self-governance status on the grounds that it will not impact Users per se.</li> </ul>
National Grid LNG Storage	Support	f) - positive	<ul style="list-style-type: none"> <li>Believes the modification proposal qualifies for self-governance status as it is primarily 'housekeeping' in nature and simply seeks to remove superfluous references to National Grid LNG Storage and Uniform Network Code Section Z from within Code.</li> <li>Believes that the legal text delivers the intention of the modification and that implementation should be no later than 01 March 2016.</li> </ul>
National Grid NTS	Support	f) - positive	<ul style="list-style-type: none"> <li>Believes that it is sensible to remove existing Section Z obligations on National Grid LNG Storage, and any references to either National Grid LNG Storage and / or Section Z (throughout the UNC).</li> <li>See this proposal as primarily 'housekeeping' in nature – they believe that self-governance status is appropriate on the grounds that it is unlikely to have a material impact on competition in the shipping, transportation or supply of gas conveyed through pipes or any connected commercial activities.</li> <li>In believing that implementation could be as soon as practicably possible, National Grid NTS recognises that the Proposer has requested implementation by no later than 01 March 2016.</li> </ul>
Scotia Gas Networks	Comments	f) - positive	<ul style="list-style-type: none"> <li>Explains that it operates four independent LNG networks (SIU networks) in the far north and west of Scotland which utilise the supply of LNG currently provided from Avonmouth - removal of this non-regulated storage facility from the LNG supply chain will require SGN to source alternate supplies of LNG to ensure the continued security of supply for the SIU customers.</li> <li>Is in the process of in the process of securing LNG</li> </ul>

		<p>contracts with gas shippers at an alternate European terminal to facilitate the energy requirement for these SIU customers from gas day 01 May 2016.</p> <ul style="list-style-type: none"> <li>• Are also working with the Health &amp; Safety Executive to ensure the gas quality associated with the alternative supply remains compliant and within permissible GB parameters.</li> <li>• Recognises that implementation of the proposal would any redundant provisions in Section “Z” associated with the Storage facility at Avonmouth are removed, along with all current obligations placed on National Grid Transmission relating to the future provision of LNG storage and liquefaction following the decommissioning of the plant.</li> <li>• Supports the Panel decision taken on 20 August 2015, that the modification proposal does not meet the self-governance criteria and highlights that there may be a volume of liquefied natural gas remaining in the storage tanks at Avonmouth at the point the storage facility closes which will have been funded by gas consumers - this volume of LNG will be vaporised back into the transmission system which will render the value associated with the original liquefaction of the gas at zero.</li> <li>• In forecasting that the volume remaining at Avonmouth will be in the region of 15 - 20 GWh, SGN recognises that the material value of the liquefaction of this gas is relatively low and that National Grid Transmission have already incurred this cost. However, they believe that the effect of the implementation of this modification would be to remove SGN’s rights to access this volume of LNG after 30 April 2016 and hence the loss to customers of the value of the liquefied gas.</li> <li>• Hopeful that there will be no costs incurred by SGN associated with the Storage Withdrawal Nomination referred to in Z6.4.7 of the draft legal text and believe that the draft legal text would not remove any obligations currently in place in section “Z” or any other section in the UNC relating to SGN’s ability to obtain stored LNG from Avonmouth prior to and including Gas Day 30 April 2016.</li> </ul>
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Representations are published alongside the Final Modification Report.

## 9 Panel Discussions

## 10 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0553 should / should not be made.