

Stage 03: Draft Modification Report

0373:

Governance of NTS Connection Processes

Incorporates NTS connection processes/steps into the UNC.



Responses are invited by **dd month 2012**.



High Impact: NTS entry, exit and gas storage developers and Shippers, Gas Distribution Networks, National Grid NTS



Medium Impact: -



Low Impact: -

What stage is this document in the process?



0373

Draft Modification Report

16 February 2012

Version 1.0

Page 1 of 25

© 2012 all rights reserved

Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Legal Text
- 9 Recommendation

About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 16 February 2012.

The close-out date for responses is **xx month 2012**.

The Panel will consider the responses and agree whether or not this modification should be made.



3 **Any questions?**

5 Contact:
Joint Office

7  enquiries@gasgovernance.co.uk

18  **0121 623 2115**

21 **Proposer:**
25 **Richard Fairholme**
25 (E.ON UK)

25  Richard.Fairholme@eon-uk.com

 **02476 181421**

Transporter:
Steve Pownall
(National Grid NTS)

 steve.pownall@uk.ngrid.com

 **01926 656362**

xoserve

 commercial.enquiries@xoserve.com

0373

Draft Modification Report

16 February 2012

Version 1.0

Page 2 of 25

© 2012 all rights reserved

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Currently the arrangements and processes surrounding the physical connection, or enhancement of an existing connection of an offtake or an input to National Grid's NTS pipeline system is ad hoc in nature and not subject to established timescales, milestones or costs. The commercial arrangements concerning the booking of NTS entry/exit capacity are subject to provisions contained within the UNC. The current processes which occur outside of the UNC, "physical connection enabling works", incorporate a number of steps, listed below:

- Initial discussions between parties;
- Feasibility study;
- Design & Build – Conceptual Study; and
- Design & Build – Detailed design and construction phase.

In addition to these steps, other activities must be completed, although they are not directly related to the construction of the connection (and any additional works which may be carried out in order to accommodate the connection). These activities include, but may not be limited to:

- Establishment of an exit/entry point plus revenue drivers; and
- Finalisation of a connection agreement.

The current lack of formal governance surrounding these activities and processes creates uncertainty in timescales and costs for connecting parties which are detrimental to investment/engineering plans, third party costs and the economic viability of projects.

Solution

In order to provide for greater certainty, it is proposed that the UNC is modified to accommodate a new, formal NTS Connection process, involving the creation of an "Offer" by NG NTS to connect to the NTS or to modify an existing NTS connection. Such an "Offer" would effectively replace the existing National Grid NTS Design & Build Agreement (which includes the provision of a Conceptual Design Study and a Construction Agreement) and Feasibility study process.

This Modification Proposal creates a framework within which NG NTS shall operate its NTS Connection Offer process and establishes the key rights and responsibilities of both NG NTS and parties wishing to connect to the NTS or modify an existing NTS connection. In summary, this Modification Proposal describes the application process for Connection Offers, what Connection Offers would contain, the applicable timescales for the provision of Connection Offers and describes the rules for acceptance and amendment of Connection Offers.

Impacts & Costs

Costs are expected to be minimal and not paid for by Users.

There are numerous positive impacts relating to reduction in costs/risk for connecting parties in the following areas:

- Administration of overall development downstream/upstream of the connection;
- Development and capital costs associated with the connecting facility/pipeline; and
- Third party contractual risks faced by the connecting party.

The incorporation of the processes in to the UNC will mean that they become subject to the governance and regulatory arrangements underpinning the UNC.

Implementation

While no implementation timescale is proposed, it is believed that the modification could be implemented once sufficient notice of the newly envisaged fixed charge has been given.

The Case for Change

The Modification creates greater certainty around timescales and costs associated with achieving a physical NTS connection, or enhancement of an already existing NTS connection. Implementation will better facilitate Relevant Objectives b, c and d as it will lead to greater transparency, non-discrimination and competition. In addition, where the connection pertains to a connected system, not owned by National Grid NTS, it will improve co-ordination between systems.

Recommendations

All parties are invited to consider whether they wish to submit views regarding this modification.

2 Why Change?

Currently, there are effectively two processes which, theoretically should run in parallel, in relation to the achievement of a physical connection, or the enhancement of an already existing connection to the NTS, be it a direct offtake/input or CSEP. The UNC process relates to the securing of capacity rights on the NTS while the, what we will term, the “physical connection enabling works” process concerning the engineering design and construction arrangements, is independent of the UNC and the subject of a number of bilateral agreements between National Grid NTS and the relevant counterparty.

The physical connection enabling process is managed by National Grid NTS and, as such, is not subject to prescribed timescales, standard costing, or service levels. As a result, the requesting party – shipper or developer – is uncertain of the costs it might incur in certain instances and the timing of the delivery of certain outputs which contribute to the overall process.

In very high-level terms, a typical physical connection enabling works process will likely consist of the following steps, although this may vary depending on the complexity of the connection:

- Initial discussions between parties, including the provision of high-level information regarding the connection by the requesting party; and
- A feasibility study may be carried out at the request of the requesting party or National Grid NTS. The main purpose of the study is to establish options for connection and/or identify what level of works National Grid NTS will most likely need to carry out, beyond the minimum connection, to accommodate the connection. The price of the feasibility study varies and is determined by National Grid NTS, subject to the relevant Connection Charging Statement and there is no prescribed timescale by which this study should be completed; and
- Following the execution of a Design and Build Agreement, National Grid NTS will carry out a Conceptual Design Study. The main purpose of the study is to scope out the overall works to be carried out, including an estimate of the costs to be incurred by the requesting party. The price of the Conceptual Design Study varies and is determined by National Grid NTS, subject to the relevant Connection Charging Statement and there is no prescribed timescale by which this study should be completed; and
- Following the completion of the Conceptual Design Study, the requesting party may terminate the agreement and not proceed to the next stage of the process. In the event that a termination is not forthcoming, National Grid NTS will invoice the

requesting party for a portion of the estimated costs laid out in the Conceptual Design Study and commence the detailed design and construction phase.

Further to the processes detailed above two other processes are critical to the completion of an operational connection:

- In the event that the connection is a new connection requiring a new entry/exit point to be recorded in the NTS Gas Transporter Licence then a separate process must be initiated by National Grid NTS to establish the entry/exit point and agree the necessary revenue drivers with Ofgem to permit the UNC capacity booking process to commence; and
- A Network Entry Agreement, Network Exit Agreement, or in the case of a storage connection, a Storage Connection Agreement must be executed. At the highest level, these agreements lay out operational obligations and verification of asset ownership.

Beyond the fairly mechanical processes set out in the UNC in relation to securing capacity rights, the processes which are external to the UNC, in the proposer's view lack structure and governance. Given the control exerted by National Grid NTS in relation to the carrying out of these tasks, requesting parties may become frustrated by the lack of certainty in costs, timescales and the relevance and value of some of the existing reports / processes. In the event that the processes carried out by National Grid NTS are not achieved in timescales not unreasonably required by the requesting party, there may be unexpected delays beyond the desired date of connection. Late connections can undermine the economics of a planned project for the following reasons:

- The connection process will likely be one part of a significant engineering programme and any delays in the connection will likely have implications on other aspects of the engineering programme resulting in additional costs being incurred by the developer;
- The date of connection may have strategic value and any delay may undermine the value ascribed to the connecting facility(ies);
- Other costs may be incurred by the relevant parties, such as; a need to enter into alternative commercial arrangements to account for the unavailability of the connecting facility; deferment of the purchase of commissioning gas/cushion gas; extension of operation and maintenance contracts, etc.

3 Solution

In order to provide for greater certainty in terms of delivery of those outputs detailed in Section 2 it is proposed that the UNC is modified to accommodate a new, formal 'Connection Offer' process applicable to all parties who wish to connect to, or modify an existing connection to, the NTS.

The following detailed business rules describe how the Modification 'Solution' is expected to work in practice.

NTS CONNECTION OFFER PROCESS

1. Application Process:

- 1.1 If a party wishes to connect to the NTS or wishes to modify an existing NTS connection, it shall complete and submit the relevant formal Application form as published on NG NTS' website. For clarity, completed Application forms shall not be published on NG NTS' website.
- 1.2 Any information submitted to NG NTS by the Applicant for the purposes of the Connection Offer process shall be treated as commercially confidential and shall not be shared with any third party unless consented to by the Applicant.
- 1.3 For the purposes of the NTS Connection Offer process, an Applicant can be a User as defined under the terms of the UNC (including Distribution Network Transporters/Users) or any other third party that requests a connection to the NTS.
- 1.4 Submission by the Applicant and subsequent acceptance of the Application form by NG NTS shall constitute formal admission into the NTS Connection Offer process.
- 1.5 Written notification of receipt must be issued by NG NTS as soon as reasonably practicable and in any case no longer than 2 business days from the date of receipt.
- 1.6 Written notification of acceptance must be issued by NG NTS as soon as reasonably practicable and in any case no longer than 5 business days from the date when the application becomes a 'Competent Application'.
- 1.7 A 'Competent Application' is, for the purposes of the NTS Connection Offer process, an application where the application form has been correctly completed, the requested technical data has been provided and the relevant Application Fee has been paid and is cleared funds in the relevant NG NTS bank account.

- 1.8 If the application is not accepted by NG NTS (i.e. it is not deemed to be a "Competent Application"), a written notification of non-acceptance and reasons for non-acceptance shall be provided to the Applicant as soon as reasonably practicable.
- 1.9 Where NG NTS considers that any information provided by the Applicant is incomplete or unclear, or further information is required, the Applicant may be requested to provide further information or clarification as soon as reasonably practicable and in any case no longer than 5 business days from the date of receipt.
- 1.10 The Applicant may withdraw by written notification a Connection Offer Application at any time before the Connection Offer is made. The Application Fee shall be refunded to the Applicant, in such amount that includes a deduction for actual costs reasonably incurred by NG NTS in preparing the Connection Offer up to that point in time.

2. Connection Offer Application Fees

Initial Connection Offer

- 2.1 NG NTS shall offer to Applicants a Fixed Fee Application when submitting a request for an Initial Connection Offer.
- 2.2. The Fixed Fee for an Initial Connection Offer shall be the same monetary value for all categories of NTS connections.
- 2.3. The Fixed Fee shall reflect the average NG NTS fully-absorbed direct costs to provide the Initial Connection Offer.
- 2.4. The Fixed Fee shall be reviewed, and where appropriate updated on an annual basis; and published in the Charging Statement for Gas Transmission Connection Charging (Licence Condition 4B).
- 2.5. The Fixed Fee shall be full and final and shall not be subject to any adjustment by NG NTS once paid by the Applicant.

Full Connection Offer

- 2.6 Confirmation of the Application Fee for a Full Connection Offer shall be provided as part of the Initial Connection Offer where an Initial Connection Offer is selected by the Applicant.
- 2.7 NG NTS shall establish, publish and review on an annual basis the types of NTS Connections and the Application Fees payable by the Applicant for each Full Connection Offer type.

- 2.8 NG NTS shall carry out a reconciliation of actual costs against Application Fee paid once the Full Connection Offer has been made.

3. Definition and Content of Connection Offers

- 3.1 Applicants shall select on the Application Form whether they would like an Initial Connection Offer (ICO) or a Full Connection Offer (FCO). For clarity, an application for a ICO is optional, but a FCO is mandatory in order for the Applicant to receive an Offer to connect to, or modify an existing connection to, the NTS.

Definition

- 3.2 An **Initial Connection Offer (ICO)** is an early estimate of the physical construction costs; programme of works and layout of the proposed Connection based only on a desktop exercise by NG NTS and will provide the Applicant with the information as described at 3.4 and a draft Construction Agreement (unless waived by the Applicant at the point of Application). For clarity, an Initial Connection Offer is only for a single point of connection to the NTS; its purpose is not to explore multiple options to connect to the NTS.
- 3.3 A **Full Connection Offer (FCO)** is a detailed estimate of the physical construction costs, programme of works and layout of the proposed Connection based on design / engineering studies and will provide the Applicant with the information as described at 3.5 and a draft Construction Agreement. For clarity, there will still be a detailed design and build stage after the FCO is provided but this is not included in the Connection Offer process.

Content

- 3.4 An **Initial Connection Offer (ICO)** shall comprise, as a minimum:
- (a) **Price of Connection** – an estimate of the construction works costs attributable to the Applicant. It shall also include details of when any financial liabilities in respect of construction costs would begin and how they would increase (i.e. the Applicant's payment profile based on NG NTS's actual expenditure), including provision for reconciliation of actual costs post-construction, where reasonably incurred by NG NTS.
 - (b) **Connection Programme** including an indicative Connection Completion Date with key milestones and whether or not NTS Reinforcement will be required.
 - (c) **Layout** – Indicative location of connection and a connection layout drawing.

- (d) A draft **Construction Agreement** (unless waived by Applicant at the point of Application).
- (e) An overview of the design / engineering work (including any specific studies) to be carried out by National Grid NTS in order to make a Full Connection Offer (e.g. scope of a feasibility study).
- (f) Confirmation of the Application Fee payable by the Applicant for a Full Connection Offer.

3.5 A **Full Connection Offer** shall comprise, as a minimum:

(a) Price of Connection - an estimate of the construction works costs attributable to the Applicant in respect of the Connection Offer, if the Offer is accepted. It shall also include details of when any financial liabilities in respect of detailed design and/or construction costs would begin and how they would increase (i.e. the Applicant's payment profile based on NG NTS's actual expenditure), including provision for reconciliation of actual costs post-construction, where reasonably incurred by NG NTS.

(b) Connection Programme, including as a minimum:

(i) *Connection Completion Date* – the date that the physical connection will be made available to the Applicant for:

(a) Commissioning and;

(b) Full commercial operation.

NG NTS shall also provide details of how connection completion dates are contingent on any relevant planning consents being granted to NG NTS (where applicable to the Connection).

(ii) *A Project Plan, including as a minimum:*

- Indicative milestone when NG NTS would expect to apply for a new revenue driver (if applicable).
- Indicative earliest milestone at which Exit and/or Entry Capacity could be bid /applied for by the Applicant in order for the Applicant to tie-in their capacity needs with the Connection Completion Date.
- Indicative milestone by when Network Exit Agreement (NExA) / Network Entry Agreement (NEA) / Storage Connection Agreement (SCA) has to be signed (where applicable).

For clarity, the project plan is intended to be used as guidance only to assist Applicants with general project planning and in no way does it

oblige NG NTS to make NTS Entry or Exit capacity available at the connection point.

- (iii) *Programme of Works, including as a minimum*
 - Overall project timeline and key milestones
 - Payment milestones
 - Credit requirements
 - Dates for purchase of any long-lead items
 - Detail of any additional detailed design studies required if the Connection Offer is accepted, including the indicative cost of such studies.
 - (iv) *NG NTS Planning Milestones*
 - Details of NG NTS planning consents already submitted or expected to be submitted before the physical connection can be made.
 - (v) *Technical Parameters / Specification (including as a minimum)*
 - Indicative Ramp Rates (where relevant to the Connection Offer)
 - (vi) *Indicative size and route corridor of connecting pipeline* (only where NG NTS has been requested to build the connecting pipeline).
 - (vii) *Site-specific draft ARCA, NEA, NExA or SCA* (if appropriate).
- (c) **Layout** – Location of connection, including Ordnance Survey map (or equivalent) with grid references and a site-specific layout drawing.
- (d) **Any relevant design / engineering study reports** (e.g. Conceptual Design Study), if required by NG NTS and/or paid for by the Applicant as part of the Application Fee.
- (e) Draft **Construction Agreement**.

3.6 The Full Connection Offer shall include all site-specific information or terms which vary from the NG NTS Standard Conditions of Contract for NTS Connections.

3.7 The terms and conditions for the termination of a Connection Offer once accepted and the associated liabilities shall be included within the Offer. For clarity, the Applicant shall be liable for actual costs reasonably incurred by NG NTS up to the date when NG NTS receives written notification of termination by the Applicant.

3.8 Where a physical connection to the NTS is not feasible for technical or engineering reasons, NG NTS shall as soon as reasonably practicable provide written notification to the Applicant and the Authority, with an explanation why physical connection (and therefore provision of a Connection Offer) is not possible.

4 Timescales & Offer Acceptance

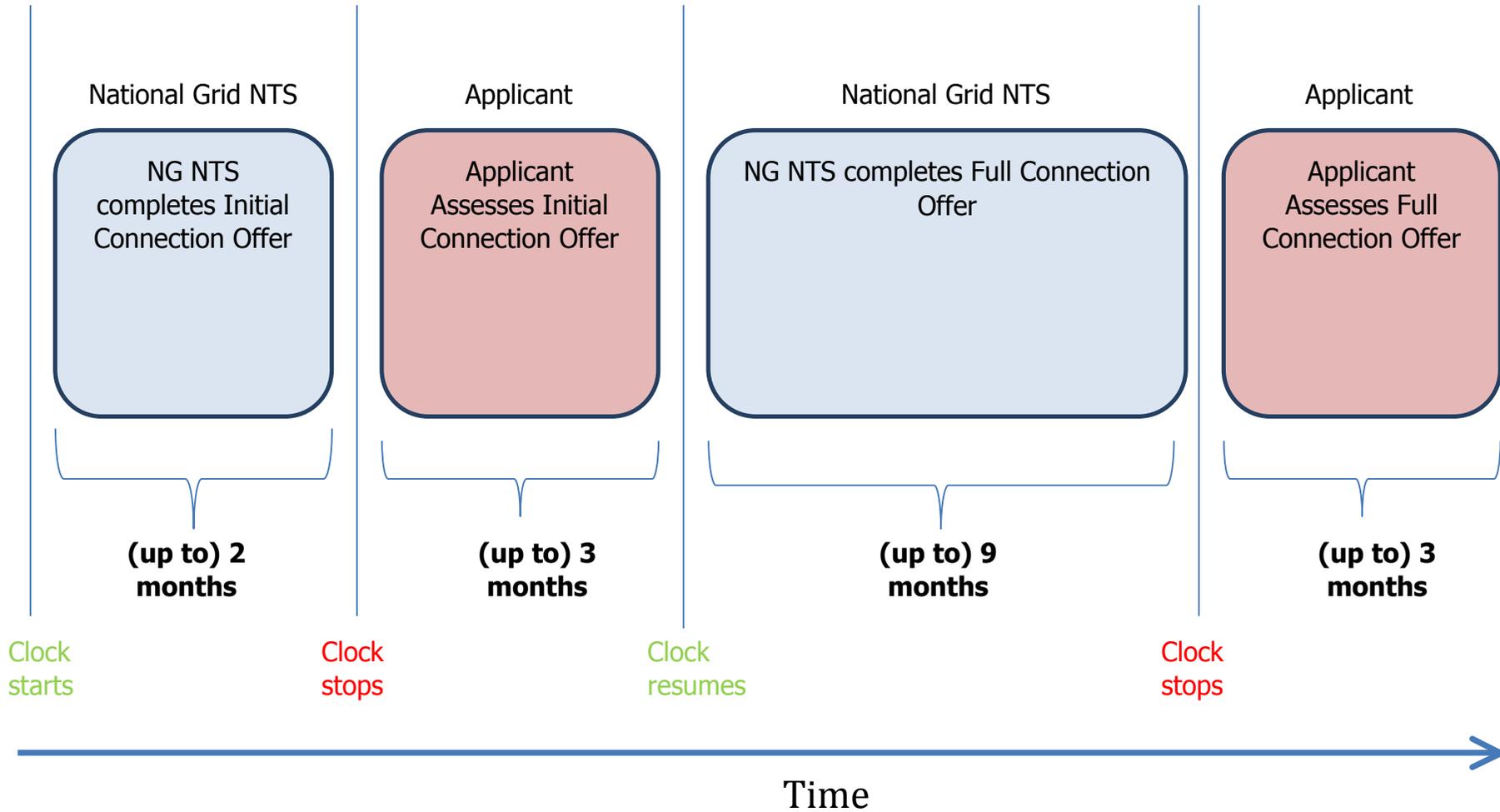
- 4.1. For the purposes of defining the period of time during which a Connection Offer must be made by NG NTS to the Applicant, the 'clock' starts once NG NTS issues a notification of acceptance into the NTS Connections Offer process and ends when the Connection Offer is deemed to have been received by the Applicant.
- 4.2. NG NTS will make an Initial Connection Offer as soon as is reasonably practicable and in any case no longer than 2 months after a notification of acceptance for an Initial Connection Offer has been issued.
- 4.3. NG NTS will make a Full Connection Offer as soon as is reasonably practicable and in any case no longer than 6 months after a notification of acceptance for a Full Connection Offer has been issued, unless the Application is not for a new Greenfield Minimum Connection less than 50MW/minute (ramp rate).

For any other connection type NG NTS will make a Full Connection Offer as soon as is reasonably practicable and in any case no longer than 9 months after a notification of acceptance for a Full Connection Offer has been issued.

- 4.4. An Applicant will have up to 3 months to assess an Initial Connection Offer and provide written notification that they wish NG NTS to prepare a Full Connection Offer. For clarity, NG NTS will not begin work on a FCO until payment of the relevant FCO application fee has been made by the Applicant.

A Full Connection Offer must be accepted by the Applicant within 3 months from the date that the Connection Offer is made. Failure by the Applicant to accept within 3 months will cause the Connection Offer to lapse and be treated as null and void.

Figure 1: Example of a typical timeline for the Connection Offer process (ICO & FCO):

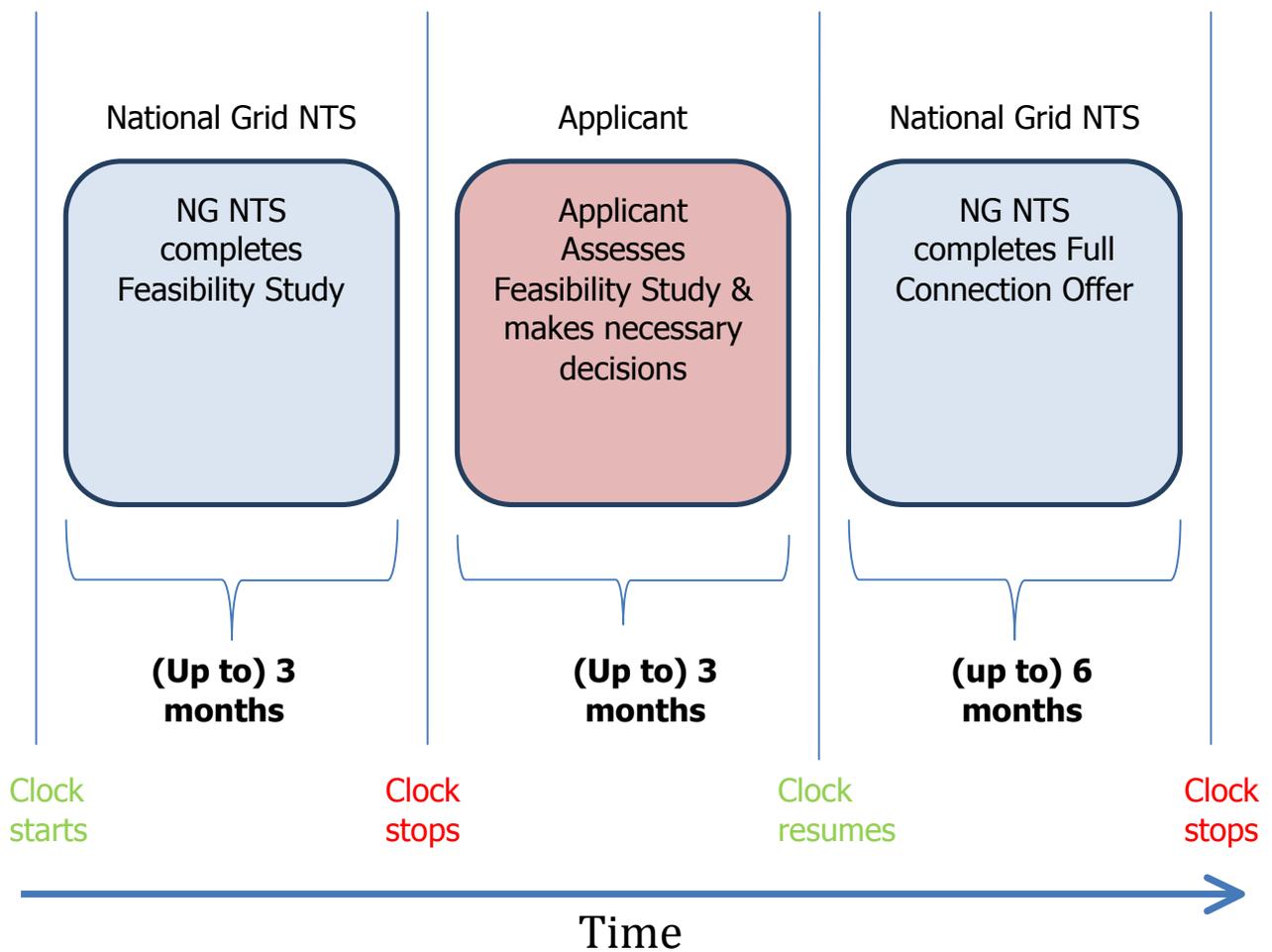


- 4.5 Full Connection Offers expected to take NG NTS longer than 9 months, or Initial Connection Offers expected to take NG NTS longer than 2 months to make can only be consented to by the Authority. NG NTS must make a written request to the Authority requesting an extension, including the reasons for such a request and including the Applicant's views on the proposed extension. Where consented to, NG NTS must then make the Full (or Initial) Connection Offer within the timescale consented to by the Authority.

NG NTS-required Feasibility Study within a Full Connection Offer

- 4.6 Where, as part of a Full Connection Offer, a feasibility study is deemed necessary by NG NTS before a Full Connection Offer can be made, the feasibility study report shall be provided to the Applicant as soon as reasonably practicable and in any case no later than 3 months after a notification of acceptance for a Full Connection Offer has been issued.
- 4.7 No later than 3 months after receipt of the feasibility study report, the Applicant shall:
- (i) Where required, provide answers in response to reasonable questions raised by NG NTS following completion of the feasibility study in order for NG NTS to be able to continue to make a Full Connection Offer; and
 - (ii) Formally notify NG NTS that it wishes NG NTS to continue to make a Full Connection Offer within the relevant timescale (depending on the Connection Offer type) or where relevant, the timescale consented to by the Authority.
- 4.8 If the Applicant fails to respond within 3 months, NG NTS shall cease work on the Full Connection Offer and the Application shall lapse. The Applicant shall also reserve the right to withdraw from the Connection Offer process after the feasibility study has been provided.
- 4.9 By way of example, Figure 2, below, illustrates how the Full Connection Offer process and associated prescribed timescales would be affected where a feasibility study is required by NG NTS, which then requires a decision(s) by the Applicant following completion of the report. In this example, the connection type is not a Greenfield Minimum Connection less than 50MW/minute (ramp rate), so the maximum permitted timescale for provision of a Connection Offer is 9 months. For the purpose of calculating the 9 month period, the 3 month assessment and decision period for the Applicant is not included (i.e. the 'clock' stops during this period); so in practice, NG NTS has 9 months + 3 months to make the Full Connection Offer.

Figure 2: Illustration of how a NG NTS-required feasibility study fits into the Full Connection Offer process:



5 Modification of a Connection Offer

- 5.1 Where, after a Full Connection Offer has been accepted, the Applicant wishes to make an amendment to the terms of the Full Connection Offer, a Modification to Connection Offer Application form must be submitted to NG NTS.
- 5.2 NG NTS shall prepare and publish on its website an Application form for the Modification of Connection Offer.
- 5.3 A Modification of Connection Offer Application, where accepted by NG NTS, shall oblige NG NTS to provide a revised Full Connection Offer including a revised Construction Agreement, reflecting any changes necessary as a result of the Modification of Connection Offer Application.
- 5.4 The Application fee for a Modification to Connection Offer Application shall be either:
- 75% of the Application Fee which was paid by the Applicant for the relevant Full Connection Offer; or
 - Any fee less than 75% of the Application Fee (as defined above), where mutually agreed by the Applicant and NG NTS (e.g. to cover simple changes).

- 5.5 The maximum permitted timescales applicable to NG NTS for providing a Full Connection Offer shall also apply to a Modification of Connection Offer; i.e. as soon as reasonably practicable and in any case no later than 9 months or any other time as consented to by the Authority, depending on the connection type.
- 5.6 Consistent with the Connection Offer Application process, Applicants for a Modification of Connection Offer shall have up to 3 months to consider and accept the Modification of Connection Offer.
- 5.7 For clarity, it shall be at the Applicant's sole discretion whether or not a Modification of Connection Offer is accepted (i.e. whether or not the revised Construction Agreement is signed).

6. Information Publication Requirements

- 6.1 For the purposes of the NTS Connection Offer process, NG NTS shall publish the following information on its public website:
- (a) The Standard Conditions of Contract for the Construction Agreement (SCC) for each connection type.
 - (b) A generic ARCA, NExA, NEA & SCA.
 - (c) Generic technical specifications / standards associated with the NTS Connection Offer processes which are not site-specific.
 - (d) A generic Connection Offer template.
- 6.2 NG NTS shall publish on a quarterly basis:
- (a) The number of Competent Applications for Connection Offers (both ICO & FCO) received in that quarter & cumulative total for the calendar year.
 - (b) The cumulative total for the calendar year of Full Connection Offers made in:
 - (i) 3 months
 - (ii) 9 months
 - (iii) Any other timescale as consented to by the Authority.
 - (c) The cumulative total for the calendar year of Initial Connection Offers made in:
 - (iv) 2 months
 - (v) Any other timescale as consented to by the Authority.

7 Applicant-Requested Pre-Connection Application Studies

- 7.1 Where a potential Applicant wishes to explore options for connecting to the NTS, a 'pre-application study' may be requested. Due to the speculative and varied nature of such requests, it is not proposed to specify obligated timescales or costs upfront. However, NG NTS shall be subject to a reasonable endeavours obligation to respond to requests from potential Applicants, to complete the

study in a reasonable timescale, at a price which reflects the costs incurred and on mutually acceptable terms.

7.2 For the avoidance of doubt, an Applicant-Requested Pre-Connection Application Study shall not constitute a contingent part of the Connections Offer process.

7.3 The intended purpose of this type of study is for potential Applicants to explore and potentially narrow down options for connecting to the NTS, in order to be in a position to submit a formal Application for a Connection Offer. It is not proposed to limit the scope or remit of such studies, which the Applicant should be free to propose, provided they are willing to pay the costs of the study or studies in advance, when provided by NG NTS.

7.4 If an Applicant-Requested Pre-Connection Application Study produces data which can be re-used for the purposes of the formal Connection Offer process then the Application Fee and timescales for the formal Connection Offer may, at NG NTS' discretion, be reduced accordingly.

~ End of Business Rules ~

Proposed NTS Connection Charging Methodology Changes:

In order to support the introduction of a Connection Offer process, it is proposed that the following text is inserted into UNC TPD, Section Y:

SECTION 2 - CONNECTION CHARGING METHODOLOGY

NTS Connections: Application Fixed Fee - Initial Connection Offer

The application fee for an Initial Connection Offer shall be a full, fixed and final amount and not subject to any adjustment by NG NTS once paid by the applicant.

It shall reflect the average NG NTS fully absorbed costs required to produce the information contained in an Initial Connection Offer. The Application Fixed Fee will be reviewed on either:-

- a) An annual basis, and updated, where appropriate, to reflect any changes to NG NTS staff costs or;
- b) An ad-hoc basis where the scope of an Initial Connection Offer is amended through the implementation of a UNC Modification Proposal for example, to provide additional information.

Typical NG NTS activities required to produce an Initial Connection Offer include, but are not limited to; the administration of the application, desktop design activities, network analysis, costing activities, internal governance and legal review.

The Application Fixed Fee will be published in the 'NTS Connections - Application Fee Matrix' within the 'The Statement of Gas Transmission Connection Charges'.

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives b, c, and d.**

The benefits against the Code Relevant Objectives	
Description of 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.	Positive
c) Efficient discharge of the licensee's obligations.	Positive
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.	Positive
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	None

Transparency and consistency in the treatment of connecting parties will help ensure that each connecting party is dealt with in a non-discriminatory manner. Currently, the connection process is managed by National Grid NTS in accordance with timescales it determines, which may mean that it could prefer to apply different timescales to certain connections over others – although National Grid NTS would wish to emphasise that they have always progressed connections in a non-discriminatory manner. The codification of the arrangements will remove any ambiguity and require that all connections are treated in the same, transparent, manner. In terms of better facilitating **Relevant Objective (c)** this will help ensure that no shipper gains any unfair advantage.

For those reasons stated above regarding potential undue discrimination it is clear that competition between shippers will be enhanced providing for better facilitation of **Relevant Objective (d)**. Furthermore, it is hoped, more generally, that if National Grid NTS is subject to contracted timescales then this enhanced certainty will result in

0373

Draft Modification Report

16 February 2012

Version 1.0

Page 18 of 25

© 2012 all rights reserved

projects (e.g. new gas storage) being brought to market in a more timely fashion. In turn, this will enhance competition in a number of cases, for example where the connection is an entry or storage connection it will likely reinforce the relevant shipper's portfolio position. Finally, greater certainty in relation to timescales and costs will better inform individual shipper decision making processes, in terms of project feasibility, which by its very nature will limit development costs and create efficiencies. Efficiency in decision making and in the deployment of capital is essential in the creation, or fulfilment of a competitive market.

In addition, in the event that the connection is one which relates to a connected system, then codification of the arrangements which require National Grid NTS to work to designated timescales will necessarily lead to greater certainty in relation to the full build programme for the developer of the connecting pipeline. In turn, this should lead to efficiencies in achieving the necessary consents as well as the ordering and construction of the connecting pipeline. The effect is better facilitation of **Relevant Objective (b)** assuming that in some cases the connecting pipeline system falls under the ownership of a gas transporter.

Relevant Objectives relating to the NTS Connection Charging Methodology

Implementation will better facilitate the achievement of **Relevant Objectives c and d.**

The Workgroup's view of the benefits against the Code Relevant Objectives relating to the NTS Connection Charging Methodology

Description of Relevant Objective	Identified impact
a) compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;	None
b) compliance with the connection charging methodology facilitates competition in the supply of gas, and does not restrict, distort, or prevent competition in the transportation of gas conveyed through pipes;	None

c) compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its transportation business and, where the Act enables, to charge a reasonable profit;	Positive
d) so far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's transportation business; and a. compliance with the connection charging methodology ensures that the licensee shall not show any undue preference towards, or undue discrimination against, any person who operates, or proposes to operate, a pipe-line system in relation to the connection of that system to the pipe-line system to which this licence relates.	Positive
e) 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

Introducing a methodology change to require the fixed fee to be calculated on the basis of costs incurred for the service facilitates Objective C, compliance with the connection charging methodology results in charges which reflect the costs incurred by the licensee.

Implementing a fixed fee would support achievement of Objective d) a. because there can be no undue discrimination when all face the same fee for the same service.

The modification does not conflict with:

- (i) paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
- (ii) paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence.

5 Impacts and Costs

Consideration of Wider Industry Impacts

None identified.

Costs

Indicative industry costs – User Pays	
Classification of the Proposal as User Pays or not and justification for classification	
This is not a User Pays modification as the costs of implementation will relate, generally, to the internal processes and practices employed by National Grid NTS to ensure compliance with the UNC obligations.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
Not applicable.	
Proposed charge(s) for application of Users Pays charges to Shippers	
Not applicable.	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
Not applicable.	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> Establishment of new processes to ensure compliance with UNC obligations in relation to milestones and timescales.
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact

Impact on Users	
Administrative and operational	<ul style="list-style-type: none"> Reduce costs associated with managing internal administration of the processes due to greater clarity in terms of the connection process.
Development, capital and operating costs	<ul style="list-style-type: none"> Reduce development and capital costs associated with the connecting facility and/or pipeline since processes can be better aligned with those applied by National Grid NTS.
Contractual risks	<ul style="list-style-type: none"> Reduces contractual risks with third parties involved in the downstream development of the facility and/or pipeline since the potential removal of delays in National Grid NTS' lead process will ensure contractual obligations with third parties can be better structured and managed; e.g. limit risk of contract cancellation and associated penalties.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Proper contractualisation of processes that sit outside of any formal contractual structures. Allows for regulatory oversight of these matters given the proposed inclusion in the UNC.



Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:
<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> None
Recovery of costs	<ul style="list-style-type: none"> None
Price regulation	<ul style="list-style-type: none"> A change to the Charging methodology (Section Y UNC) is involved
Contractual risks	<ul style="list-style-type: none"> Contractualisation of non-contracted processes

Impact on Transporters	
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> None

Impact on Code	
Code section	Potential impact
UNC TPD Sections Y & V	Inserting Connection Offer processes (Section V) & inserting charging methodology changes to support the Connection Offer process (Section Y).

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	Enhance security of supply as more certainty for developers/shippers in relation to their connection that should provide confidence and efficiency in third party investments (e.g. in new gas storage).
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	Positive impact for those parties downstream/upstream of connection and overall for consumers as connections are made in a timely and coordinated manner.

6 Implementation

While no implementation timescale is proposed, it is believed that the modification could be implemented once sufficient notice of the newly envisaged fixed charge has been given.

7 The Case for Change

None in addition to that above.

8 Legal Text

Draft Legal Text, based on version 5 of the Modification Proposal, has been provided by National Grid NTS and has been published separately alongside this document.

9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this modification.

The close-out date for responses is **dd Month 2012**, which should be sent to enquiries@gasgovernance.co.uk.

A response template which you may wish to use is at www.gasgovernance.co.uk/0373



Consultation Ends

On xx Month 2012