Modification Report
Enduring Provisions for LDZ System Entry Points
Modification Reference Number 0154
Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Background

In August 2006 National Grid raised Modification Proposal 0105, ("Commercial Arrangements for combined DN Exit / Entry Points"), to provide an arrangement for gas to enter the Total System directly via an LDZ System Entry Point where no baseline capacity was allocated to it through National Grid NTS's transporter licence. The trigger for raising this proposal was the connection at Holford storage facility. The solution implemented established the principle of using inter-operator flow agreements to establish the physical arrangements while still allowing the existing UNC commercial arrangements to apply, thereby ensuring that gas entering the system at the point is included in the delivering shipper's balance in the absence of an NTS Entry Capacity holding. (For reference; the key rule in this issue is UNC TPD B1.2.8, which requires gas entering at an LDZ System Entry Point to hold NTS Entry Capacity. This in turn prompts the inclusion of these points in NTS's licence). While proposal 0105 was raised to address a specific issue at Holford, the transitional arrangement put in place was generic and could have been applied to other excluded entry points.

Since the implementation of proposal 0105, Standard Special Condition D12 has been accepted by each DNO for inclusion in their respective licences. Basically, this condition requires a DNO to offer connection terms to an operator wishing provide for the introduction of gas directly into an LDZ. The enduring nature of the condition requires an enduring arrangement in the UNC and this proposal seeks to provide such an arrangement. Building on the concept and rules introduced into the UNC by proposal 0105, the purpose of this proposal is to establish enduring arrangements for new LDZ connections or existing LDZ entry points allocated baseline NTS Entry Capacity wishing to move to these new arrangements following a change to its regulatory treatment.

LDZ System Entry - Principal Document UNC Rules (deletion of transitional rules required)

1. A " **'New, (or excluded)', LDZ System Entry Point**" is created where a DNO permits, or has in the past permitted, a connection to its pipeline system for the purpose of introducing gas into the pipeline system and such System Entry Point is not, or is no longer, listed as an Entry Point in Schedule A, Table A2 of NTS's Licence and a Bilateral Agreement has been signed and agreed.

2. Conversely, an " **'Old, (or included)', LDZ System Entry point**", that is a point where gas directly enters a DNO's pipeline system but is currently included in NTS's licence. It would only be eligible for reclassification as a New LDZ System Entry Point when it ceases to be

included in Schedule A and a Bilateral Agreement has been agreed and signed.

3. In accordance with SSCD12 of a DNO's Gas Transporter Licence, a DNO will allow the introduction of gas into the system in accordance with the terms and conditions set out in a bilateral agreement between the transporter and the Delivery Facility Operator ("DFO"), ("**the Bilateral Agreement**").

4. The Bilateral Agreement will set out the operating parameters in accordance with which the DFO will operate gas flows at the a New LDZ System Entry point and specify the condition of the gas that it may tender for delivery by a shipper into the system (see paragraph 8).

5. For a New LDZ System Entry Point, UNC TPD B1.2.8 will not apply. (This will have the effect of switching-off the entry capacity rules pertaining to NTS Entry Capacity set-out in UNC TPD Section B2 and I3.7 to I3.9).

   Old LDZ System Entry Points will continue to be subject to such provisions.

6. In the case of a New LDZ System Entry Point, the operational parameters for the physical delivery of gas would set-out in, and be determined by, the provisions of the Bilateral Agreement.

   Shippers wishing to deliver gas to the system will be required to acknowledge that they are aware of the conditions contained in the Bilateral Agreement and acknowledge that, where conditions relevant to the introduction of gas into the system set out in the Bilateral Agreement are breached, or non-standard operating conditions exist, deliveries of gas may be curtailed and/or suspended by the transporter by instructing the DFO.

7. "**non-standard operating conditions**" exist when a DNO is experiencing one or more of the following occurrences on a relevant part of its system: an emergency, a transportation constraint is evident or one or more system exit points have experienced a gas supply failure.

8. The shipper accepts that where a breach of the Bilateral Agreement occurs and flows need to be restricted, this will be carried out via direct contact between a DNO and the DFO.

9. Liability

Where a DNO is unable to accept the nominated quantity of gas due to its actions then it will be liable to the shipper for a sum equal to 5 times the daily transportation charge, (payable by the shipper), in respect of the quantity of gas which was not accepted due to the DNO's action, subject to the quantity nominated by the shipper, up to a maximum of the maximum permitted daily flow for the day in question.

A DNO would not be liable to the shipper where a nominated delivery is not accepted in accordance with its rights under the Bilateral Agreement. Additionally, where a DNO is experiencing non-standard operating conditions, or force majeure applies, it would not be liable to

the shipper for refusing to accept the gas.

Note:- Should the pricing consultation conclude that there should be no transportation charge associated with the LDZ System Entry Service, no UNC liability would rest with a DNO for not accepting gas.

10. The shipper will pay the relevant entry transportation charge, (if any), in respect of a New LDZ System Entry Point set out in the transportation statement.

    For the avoidance of doubt, Old LDZ System Entry Points would continue on the existing basis, i.e. the shipper needs to book capacity under Section B and the charges would continue to be payable on that basis.

11. All charges and payments, (if any), will be invoiced in accordance with Section S.

LDZ System Entry – Supporting Contractual Framework

For information only, supporting agreements would be required and would have the following form and function:

1. **The Bilateral Agreement** (between a DNO and the DFO) will amongst other things:

   - contain the Network Entry Conditions as envisaged by UNC Section I;
   - set out the maximum and minimum delivery pressures;
   - detail all the information flows relating to before-the-day and on-the-day operations.
   - give the DNO rights to:
     - reject gas that does not meet the standards set out in the Network Entry Conditions;
     - reject gas in excess of the maximum flow rates stated in the Bilateral Agreement,
     - close the entry point if the pressure is not maintained within the upper and lower limits, and;
     - more generally provide for a control arrangement that allows the DNO to close the entry point if system security is threatened.
   - set out a range of flow-rate arrangements;
     - maximum daily and hourly flows - available at the connection under optimum (high demand) flow conditions, and;
     - maximum daily and hourly flows - available at the connection under low flow conditions.

   It is proposed that the Bilateral Agreement would enable a DNO to charge costs associated with connection / reinforcement / wayleaves etc. incurred to get the required quantities into the pipeline system.

2. **Allocation Agreement** (between participating shippers)

Where more than one shipper delivers gas at the New LDZ System Entry Point, the participating shippers shall be jointly responsible for providing an Allocation Agreement and each shipper shall be party to such agreement. Under the Allocation Agreement, the allocating party would provide information to NTS detailing the quantity of gas allocated to each shipper at the entry point. As a default, if no allocation quantity is provided to the NTS, gas will be allocated on a pro-rata basis based on each shipper's nomination for the relevant day.

Consequences of non-implementation

Without some form of alternative arrangements such as these, it would not be possible for gas to enter the Total System at an excluded LDZ System Entry Point. The UNC only provides for transportation terms for shippers where LDZ system Entry Points are "included". Without an amendment to NTS's licence, (which clearly is outside the gift of a DNO), an amendment to commercial terms for gas entering the system is the only way that gas entering from [contained in] *(sic)* these reserves would be accessible to shippers.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Arrangements that allow the introduction of gas directly into an LDZ provide an additional tool for shippers to balance their portfolios. The introduction of a new LDZ Entry capability could facilitate the achievement of this objective.

BGT believed that implementation would not facilitate the achievement of this objective as NGNTS would lose some visibility and control (for example, impacts on NTS demand forecasting).

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the 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;

Loss of visibility and control by NGNTS would also be expected to impact the achievement of this objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation of this Proposal would fulfil the obligation placed on each DNO by the direction of Standard Special Condition D12 in April 2007. Creating an enduring DN Entry mechanism in the UNC complements the provisions of this new licence condition.

Some respondents believed that implementation could provide the relevant DN with scope for discriminatory behaviour eg where the embedded entry point

was owned by the same group of companies as the DN.

NGNTS also expressed the concern that major increases in flows at LDZ System Entry Points would have impacts on planning and investment, particularly if existing DN offtakes became bi-directional points.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the 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)

Arrangements that allow the introduction of gas directly into an LDZ provide an additional tool for Shippers to balance their portfolios. The additional balancing tool available to Shippers could facilitate the achievement of this objective.

Some respondents believed that implementation could increase the risk of "CV Capping" ie Flow Weighted Average CV (FWACV) energy loss. This would impact on Shippers' costs and hence the achievement of this objective.

BGT expressed concern that implementation might adversely affect achievement of this objective, (specifically sub clause (iii)), due to some DNs having a reduced requirement to procure flexibility.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the 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;

Some respondents expressed concern that implementation would indirectly permit different terms and conditions for different entry points and this would not facilitate the achievement of this objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to facilitate the achievement of this objective.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

As the points are discrete from the NTS, the Proposer does not advocate creating them as included entry points. NTS involvement with these flows is limited to its function as market operator; they have no effect on NTS's

transportation business from a physical perspective. Accordingly, the Proposer would see the extension of the practice of including new LDZ System Entry Points in NTS's licence as inefficient in both commercial and regulatory terms.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

Allowing the introduction of gas directly into an LDZ would provide an additional tool for shippers to balance their portfolios. This would in turn be expected to reduce the requirement for National Grid NTS to carry out Operational Balancing Steps, although this impact is expected to be minor.

b) Development and capital cost and operating cost implications:

No development or capital costs would be incurred. Some respondents believed that there would be an increased risk CV capping. This would affect Transporters' costs.

BGT expressed concern at the competitive or financial advantage that could arise as a result of any reduction in cost for DNs. Some respondents also identified potential increases in costs that would be charged to Shippers, including those who primarily operated on the NTS.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

BGT expressed concerns at potential increases in costs which would be charged to Shippers, especially those operating primarily on the NTS.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

At present, distribution transportation charges are based primarily on the Supply Point Offtake Quantity, Annual Quantity and actual quantity offtaken at a Supply Point or Connected System Exit Point. There are no distribution transportation charges relating to the entry of gas into the distribution system. Hence, the existing charging regime may be summarised as:

- Connection Charge: payable by the developer, reflecting the cost of the physical connection to the existing system and any immediate reinforcement requirements to facilitate the required flow-rates.
- Entry Charge: there are no entry charges, neither capacity nor commodity, for gas entering the system at an excluded LDZ entry point.

While this statement reflects the current charging regime, it is proposed that DNOs undertake a charging methodology review to see if this is an appropriate arrangement to move forward over the long-term.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the

Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No changes to systems would be required as a result of implementation of this Proposal.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

There are no significant implementation issues in terms of systems, process or procedures. This has been demonstrated at an existing LDZ system entry point currently operating under the existing transitional rules.

Development and capital cost and operating cost implications

Implementation would facilitate the introduction of gas at LDZ entry points. Users would be expected to benefit from this additional gas availability.

Consequence for the level of contractual risk of Users

Establishing enduring arrangements would be expected to reduce the level of contractual risk of Users intending to inject gas into the System at LDZ entry points.

As shrinkage costs are shared between Transporters, and Shippers, risks for both parties would reflect the increased risk of CV capping.

RWE pointed out that unlike older LDZ entry points, Users would not receive compensation if the DN was unable to accept gas.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

The establishment of enduring arrangements for LDZ entry points would be expected to benefit the associated producers.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantage

- Introduction of enduring arrangements would provide a greater degree of contractual certainty for the parties immediately involved.

Disadvantages

- Increased risk of CV capping under FWACV rules.
- Loss of visibility and control in the NTS planning process.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following:

British Gas Trading	BGT	Not in Support
E.ON UK plc	E.ON	Not in Support
National Grid Distribution	NGD	Support
National Grid NTS	NGNTS	Qualified Support
National Grid NTS Shrinkage Provider	NTSSP	Not in Support
RWE Npower	RWE	Comments
Wales & West Utilities	WWU	Support

Thus, two respondents were in support, one offered qualified support, one offered comments and three were not in support.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme for works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is proposed that the Modification be implemented with effect from 06:00hrs

01 October 2007.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 23 August 2007, of the nine Voting Members present, capable of casting ten votes, five votes were cast in favour of implementing this Modification Proposal. Therefore, the Panel did not recommend implementation of this Proposal.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Transportation Principal Document, Section B

Section B, paragraph 1.2.8. Amend to read as follows:

"1.2.8 Subject to Section I 3.11.3(a), ~~W~~where …"

Transportation Principal Document, Section I

Section I, paragraph 2.1.1. Amend to read as follows:

"2.1.1 Subject to paragraph 2.1.3, the Transporter will make available to any User (and the DNO will procure that the Delivery Facility Operator will make available to any LDZ System Entry Point User wishing to deliver gas at an LDZ System Entry Point) on request …Network Entry Agreement."

Section I. Add new paragraph 3.11 to read:

" **3.11. LDZ System Entry Points**

3.11.1 For the purposes of the Code:

(a) an **" LDZ System Entry Point"** is a System Entry Point on a DNO's System and that is not listed as an Entry Point in Schedule A, Table A2 of National Grid NTS's Licence;

(b) an **" LDZ System Entry Point User"** is a Delivering User at an LDZ System Entry Point;

(c) an "**LDZ System Network Entry Agreement**" is a Network Entry Agreement between a DNO and a Delivery Facility Operator of a Connected Delivery Facility at an LDZ System Entry Point containing Network Entry Provisions, including those to determine the quantities of gas which may be delivered and operation of gas flows to an LDZ System Entry Point.

3.11.2 In accordance with Standard Special Condition D12 of the DNO's Gas Transporter Licence, a DNO will allow the delivery of gas at an LDZ System Entry Point in accordance with an LDZ System Network Entry Agreement.

3.11.3 In respect of an LDZ System Entry Point:

(a) Section B1.2.8, Section B2 and paragraphs 3.7, 3.8 and 3.9 shall not apply;

(b) an LDZ System Entry Point User will pay the relevant transportation charge (if any) as set out in the Transportation Statement.

3.11.4 An LDZ System Entry Point User wishing to deliver gas at an LDZ System Entry Point acknowledges and shall be subject to the terms of the Network Entry Provisions.

3.11.5 Subject to the provisions of the Code and the Network Entry Provisions, the DNO will accept at an LDZ System Entry Point at any time gas entered for

delivery by an LDZ System Entry Point User at a rate (in kWh/Day) not exceeding the maximum permitted flow in accordance with the Network Entry Provisions.

3.11.6 Subject to the provisions of the Code and the Network Entry Provisions, if in respect of any Day the DNO fails to comply with its obligation under paragraph 3.11.5 the DNO will pay the LDZ System Entry Point User an amount which is equal to an amount determined as:

A * B * C

where for each such Day:

A is the shortfall between:

(i) the Input Nomination of the LDZ System Entry Point User at the LDZ System Entry Point; and

(ii) the LDZ System Entry Point User's proportion of the Entry Point Daily Quantity Delivered at the LDZ System Entry Point as determined in accordance with E 2;

B is the relevant daily transportation charge payable by the LDZ System Entry Point User;

C is five (5).

3.11.7 For the purposes of paragraph 3.11.6 only, where in respect of any Day the sum of the Input Nominations of all the LDZ System Entry Point Users exceeds the maximum permitted flow (in kWh/Day) at the LDZ System Entry Point, as determined accordance with the Network Entry Provisions, each LDZ System Entry Point User's Input Nomination shall be determined as:

D/E * F

where for each such Day:

D is Input Nomination of the LDZ System Entry Point User;

E is the sum of the Input Nominations of all the LDZ System Entry Point Users;

F is the maximum permitted flow (in kWh/Day) at the LDZ System Entry Point, as determined in accordance with the Network Entry Provisions.

3.11.8 Any dispute as to the amount in “A” in paragraph 3.11.6 shall be referred to Expert Determination.

3.11.9 For the avoidance of doubt, the DNO will not be in breach of its obligations under paragraph 3.11.5 in circumstances which render it unable to accept delivery of gas at an LDZ System Entry Point, including compliance with the Network Entry Provisions or the taking steps for the curtailment of gas flow rates where a Transportation Constraint is imminent or has arisen.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters