

DISTRIBUTION NETWORKS PRICING DISCUSSION REPORT ON DNP03

Charging for LDZ System Entry Points

A discussion report on behalf of all Distribution Networks

1. The DNs' Initial Proposals

Following Ofgem's conclusions on new DN entry arrangements, Standard Special Condition D12 of their GT Licence requires DNs to offer terms for the provision of gas entry points. The related contractual framework came into effect on 1 October 2007 via UNC Modification 0154. Under the contractual approach, it is expected that there will be a bilateral agreement between the DN and Delivery Facility Operator of the DN Entry facility which will specify the operational arrangements. This agreement will also specify how costs relating to connections, reinforcement, wayleaves, metering, gas quality and other items will be recovered. It is expected that these costs will be recovered through the combination of initial connection charges and ongoing non-transportation charges.

DNP03 did not propose introducing any transportation charges relating to LDZ System Entry at this time because it is expected that all the costs associated with LDZ System entry will be recovered through the non-transportation charges set out in the bilateral agreement.

2. Responses

Only one response was received to this discussion paper, from EDF Energy. The response is summarised below based on the questions for discussion in the original paper.

3. Is it appropriate to reflect any costs associated with the reinforcement of the system to handle gas flows from LDZ System Entry Points in connections charges rather than transportation charges?

EDF said it appeared appropriate that the connection charges should include any reinforcement costs associated with connecting the entry point to the LDZ. They recognised that this implied a deep connection regime as opposed to the shallow one of the NTS.

DN Response – The DNs agree with EDF's comments

EDF also sought further information, mainly in the context of reinforcement costs:

1. The number of LDZ Entry Points that GDNs are forecasting in the near future.

DN response - the number of LDZ Entry Points that GDNs expect in the near future is very low, with the total for all the Networks likely to be in single figures.

2. The level of costs associated with reinforcing the networks to accept these loads.

DN Response – As the reinforcement costs will be specific to each site it is not possible to give a general or average figure for the costs of reinforcing the networks to accept these loads. However, as explained in DNP03 it is not proposed that these costs be recovered through the transportation charges.

3. How will the reinforcement cost be calculated, and will these be transparent to the party requesting the connection.

DN Response The costs will be calculated so as to be consistent with the GDNs' Standard Special Condition D12 obligations and will be transparent to the connecting party in that they will be set out in the bilateral agreement

4. What will happen if the connecting party disagrees with the level of the connection costs.

DN Response. Standard Special Condition D12 provides a determination route for Ofgem to settle any terms of the agreement in dispute between the DN and the applicant.

5. How will the costs of the reinforcement be calculated when the benefit of the reinforcement will be shared with other LDZ users.

DN Response: The cost of specific reinforcement required for the LDZ system entry point will be charged upfront to the connecting party. The cost of any enhancements would be paid for by the GDN.

2. Is it appropriate to recover the costs of gas quality monitoring, metering and telemetry and any other non-transportation services through non-transportation charges specified in the bilateral agreement.

EDF did not specifically comment on this question

3. Should odourisation and any other operating costs relating to LDZ System Entry Points be reflected in the level of the existing LDZ System charges rather than in a commodity charge targeted on the LDZ System entry flows?

EDF asked for clarity on the commodity cost associated with gas odourisation, and also where on the Network this odourisation occurs. They commented that the only entry point to which the proposed charging arrangement could apply to at the moment is the Holford Gas Storage Facility. EDF questioned whether any additional cost of odourisation would be incurred. If no cost was incurred they accepted that the charging proposal was reasonable. However if any additional cost was to be incurred then it should be charged to the connecting party.

EDF also asked for confirmation that accepting gas onto the GDNs' networks would not add to the GDN's operating costs.

DN Response With regards to Holford, which is a bi-directional LDZ storage point, gas entering the storage facility is already odourised. The gas is odourised at the point where it first enters the LDZ from the NTS. No additional odourisation is undertaken for gas entering back into the LDZ system from Holford and so no additional cost is incurred. With respect to the operating costs, it is the intention that any identifiable increased operating costs will be recovered through non-transportation charges specified in the bilateral agreement such that the net GDN operating costs are not increased by accepting gas onto the GDNs' networks from the LDZ entry point.

4. Conclusions

The response received, and lack of other responses, has not highlighted any significant concerns with the general principle of the proposal. We therefore intend to continue with the existing transportation charging methodology so that no specific transportation charges will be applied in respect of LDZ System Entry Points.

The recovery of capital and operating costs associated with new LDZ System Entry Points through appropriate non-transportation charges will be incorporated into the relevant bilateral agreements between DNs and the Delivery Facility Operators as and when they arise.

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