

# **DISTRIBUTION NETWORKS PRICING DISCUSSION PAPER DNP03**

## **Charging for LDZ System Entry Points**

### **A discussion paper on behalf of all Distribution Networks**

#### **1. Background**

Most entry points into the gas network in Great Britain are connected to National Grid Gas' (NGG) National Transmission System (NTS). However there are currently a small number of entry points connected directly to the gas Distribution Networks (DNs). The regulatory and commercial arrangements currently treat them as if they were directly connected to the NTS. NGG NTS sells the entry capacity for these entry points in accordance with its Licence and the UNC and the relevant DN facilitates the physical flows of gas. The only exception at present is the Holford storage facility. Under Modification Proposal 0105 commercial arrangements were implemented to accommodate this facility, allowing gas to enter the gas transportation system directly via an "LDZ System Entry Point" where no baseline capacity has been allocated through National Grid NTS's Transporter Licence. Physical flows and operational arrangements are covered under an inter-operator flow agreement, whilst still allowing the commercial arrangements under the UNC to apply such that gas entering the system can be taken into account in determining the delivering Shippers' balancing position.

With a number of storage, onshore field and LNG projects being considered it is likely that there will be additional new LDZ System Entry Points in the future. In its Decision Document "Entry arrangements for connecting to the gas distribution network" dated 3 January 2007, Ofgem set out its decision on the long term commercial and regulatory framework for such new facilities. The new arrangements are based on a contractual approach between new LDZ System Entry Points and the relevant DN. These arrangements were implemented through a modification to the DN's Gas Transporters' Licence. Standard Special Condition D12, requirement to offer terms for the provision of gas entry points, was implemented from 1 April 2007.

Currently the DN's transportation charges methodology does not explicitly include charging arrangements for new LDZ System Entry Points. As part of the new commercial and regulatory regime for LDZ System Entry Points, DNs need to consider whether changes to their transportation charging methodologies so as to include charging arrangements for new LDZ System Entry Points (where capacity has not been allocated through NGG NTS's Transporter Licence) are appropriate.

#### **2. Commercial and Regulatory Framework for LDZ System Entry Points**

Ofgem is of the view that a bilateral contractual approach would provide the most appropriate long term commercial and regulatory arrangements for LDZ System Entry Points. It offers a flexible solution, in which the specific requirements of each LDZ System Entry Point can be considered on a case by case basis. This approach is also appropriate given the small number of expected new entry points.

The contractual approach is applicable to all new LDZ System Entry Points not already covered under NGG NTS's Licence, irrespective of size. The contract will be between the operator of the entry point (Delivery Facility Operator, (DFO)) and the relevant DN. The two parties are required to enter into negotiations to structure a contract that best reflects the specific characteristics of each entry point including the operating parameters in accordance with which the DFO may flow gas and the condition of gas to be tendered for delivery. The new framework came into effect on the 1 October 2007 and was consulted upon under UNC Modification Proposal 0154.

### **3. Terms for LDZ System Entry**

The bilateral contract between the DNO and DFO will specify the terms for entering gas into the distribution network at LDZ System Entry Points.

### **4. Charging Proposals**

**4.1 Basis of Charges** Under the contractual approach proposed in UNC Modification 154, for each new entry point (not included under NGG NTS's Licence), the bilateral agreement between the DN and DFO will specify the flow-rate arrangements including maximum daily and hourly flows. This agreement will also specify how costs relating to connection, reinforcement, wayleaves, metering, gas quality and other items will be recovered.

For the avoidance of doubt, for existing LDZ System Entry Points specified in NGG NTS's Licence, NTS transportation charges will continue to be applicable.

#### **4.2 Connection Charges**

Connection charges for new LDZ System Entry Points will consist of the direct costs of connection to the DN system plus the costs of any reinforcement of the system necessary to provide the contractually agreed flow rates without impairing the security of supply to existing supply points. The level of connection charges will be consistent with the connections charging methodology produced by each DN. Such connections charges will be payable by the DFO and will be treated as a capital contribution against the costs of providing the connection and reinforcement.

Given the expected type and scale of loads which are foreseen to want LDZ System entry, it is expected that any system reinforcement will generally be specific to the entry requirement. In these circumstances, recovering the costs of reinforcement through the connection charges will reduce the risk to the DN and other users of the distribution network system if the LDZ System Entry Point requirement were to cease in the future.

#### **4.3 Other Non-transportation Charges**

Charges for other non-transportation services such as metering and telemetry, and gas quality monitoring will be specified within the bilateral agreement.

#### **4.4 Transportation Charges**

It is not proposed to introduce any transportation charges relating directly to LDZ System entry at this time because all the costs associated with LDZ System entry, both capacity and commodity, will be recovered either through the connection charges or the other non-transportation charges.

#### **4.5 Capacity Costs**

It is expected that the reinforcement or other capital costs associated with providing the capacity to handle the level of flows specified in the bilateral agreement will be recovered through the connection charges. As such, it is expected that there will be no other capital costs which might be reflected in an LDZ System Entry Capacity Charge. Given this expectation, the DNs do not propose to introduce a LDZ System Entry Capacity Charge at this time.

It should be noted there are no entry capacity charges relating to gas entering the DN from NTS offtakes. This proposed treatment will therefore maintain equitability between the different types of distribution network entry points.

#### **4.6 Commodity Costs**

As stated above, it is expected that the costs of providing gas quality monitoring, metering and telemetry and any other non-transportation services will be recovered through non-transportation charges as specified in the bilateral agreement.

The main transportation operating cost relating directly to a LDZ System Entry Point is expected to be the costs of gas odourisation. At present the cost of gas odourisation for gas entering the DN system from other entry points is reflected in the level of the standard LDZ gas transportation charges levied and is not associated with particular gas flows into the distribution network. As such, it is considered inappropriate at this time to reflect the costs of gas odourisation relating to LDZ System Entry Points in a charge relating to entry flows since this would be inequitable and discriminate against new LDZ System Entry Points. Such costs will instead be reflected in the existing LDZ System charges.

The DNs therefore do not propose to introduce a LDZ System Entry Commodity Charge at this time.

### **5. Questions for Discussion**

The questions for discussion are:

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

## 8. Responses

Responses to this Discussion Paper should be sent to [enquiries@gasgovernance.com](mailto:enquiries@gasgovernance.com) to arrive by close of play on **Friday 16 November 2007**.

Questions on the content of the paper can be directed to any of the following:-

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