Joint Office of Gas Transporters

Stage 04: Final Modification Report

What stage is this document in the process?

01 Proposal

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0363V:

Commercial Arrangements for NTS Commingling Facilities

Introduces commercial arrangements into UNC to facilitate the connection of NTS entry projects which require gas offtake from the NTS to meet their gas quality delivery obligations.

Panel recommended implementation

High Impact: New NTS entry project developers and their shippers

Medium Impact: None identified

Low Impact: National Grid NTS

Contents

About this document:

This document is a Final Modification Report, presented to the Panel on 17 November 2011.

The Authority will consider the Panel's Recommendation and decide whether or not this change should be made.

Any questions?

Contact: **Joint Office**

enquiries@gasgovernance.co.uk

0121 623 2115

Proposer: **Phil Hobbins**

philip.hobbins@uk.ngrid.com

01926 653432

Transporter: **National Grid NTS**

philip.hobbins@uk.ngrid.com

01926 653432

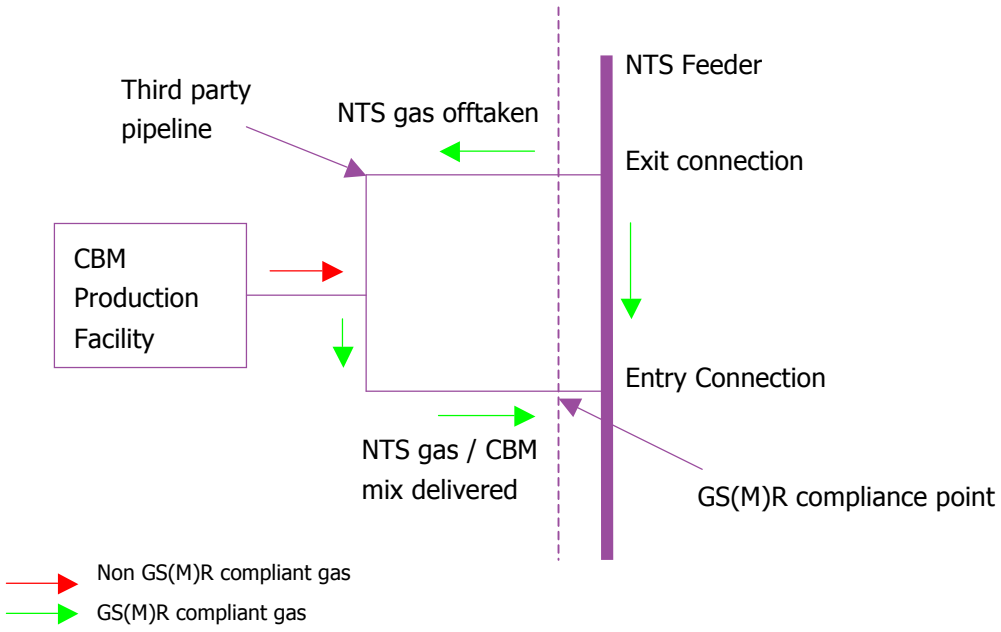
1 Summary

Is this a Self-Governance Modification?

This is not a Self-Governance modification.

Why Change?

National Grid NTS is considering a connection request from a coal bed methane project developer. This is an unconventional source of gas whose composition is not expected to conform to UK gas quality standards as enshrined in the Gas Safety (Management) Regulations 1996 (GS(M)R). The developer wishes to utilise passing NTS gas for commingling with the coal bed methane gas to produce a GS(M)R compliant mix capable of re-entering the NTS. Therefore, National Grid NTS is proposing to construct two connections – one to facilitate the offtake of gas from the NTS into the coal bed methane production facility and the other to facilitate redelivery of that gas together with the new gas added and mixed by the facility operator, as shown in the diagram below:



This will offer a new and, initially, unique type of connection to the NTS that warrants different transportation charging arrangements than those which apply to other NTS entry and NTS exit connections.

Solution

It is proposed to introduce commercial arrangements into the UNC based on the net end of day quantity in order to facilitate the connection of this type of facility onto the NTS.

For the purposes of this Proposal:

- 'net end of day quantity' means the difference (in kWh) between:
  - the quantity of NTS gas offtaken on a gas day at this type of facility; and
  - the quantity of the above NTS gas redelivered to the NTS plus the quantity of new production gas delivered to the NTS on that same gas day at an NTS Commingling Facility; and
- 'netting off process' refers to the process by which the net end of day quantity will be determined.

In particular, this Proposal seeks to:

- Introduce a new classification of facility into UNC, an 'NTS Commingling Facility' (NTS CF);
- Apply NTS commodity charges for this type of facility to the net end of day quantity relevant to each NTS CF;
- Incentivise Shipper Users to book NTS Entry Capacity and NTS Exit Capacity in respect of each NTS CF to cover their net end of day quantity in order to avoid capacity overrun charges;
- Introduce a process which facilitates the netting off of each relevant Shipper User's daily entry and exit gas flows in respect of each NTS CF from which a net end of day quantity would be derived and allocated to such Shipper User(s);
- Establish allocation agency arrangements for each NTS CF; and
- Establish the procedures and agreements by which Shipper Users may be registered at NTS CFs.

Business rules in respect of the above are included within this Proposal.

Impacts & Costs

- Developers of NTS entry projects and associated Shipper Users will have an alternative method of connection to the NTS available to them. It is considered that this model may be particularly suited to smaller scale connections of unconventional gas sources, where an upstream processing solution is not economically or locationally viable.

- In order to implement this modification, National Grid NTS proposes to put in place a daily netting off process for this type of connection. Having worked with Xoserve, National Grid NTS has concluded that this process can be administered using existing systems functionality.

Implementation

If the Authority issues a decision on this Modification before 30th September 2012, it is proposed that the Fixed Implementation Date should be 1st October 2012.

If the Authority issues a decision on this Modification on or before 2nd October 2012, it is proposed that the Fixed Implementation Date should be 3rd October 2012.

In the event that the Authority issues a decision later than 2nd October 2012, it is proposed that the Backstop Leadtime should be one calendar day after the date of the Authority decision.

The reasoning behind the first Fixed Implementation Date of 1st October 2012 is that no NTS Commingling Facility is expected to be connected to the NTS before this date and hence the legal text does not need to cater for transitional exit arrangements. The second Fixed Implementation Date of 3rd October 2012 and the Backstop Leadtime are not expected to be relevant but are included in order to comply with the Modification Rules.

The Case for Change

This Modification provides a model that could be utilised by NTS entry projects, particularly to facilitate other new sources of unconventional indigenous gas, which may otherwise be uneconomic to produce, benefiting security of supply.

2 Why Change?

National Grid NTS has received a connection request from a coal bed methane project developer. This is an unconventional source of gas which, without intervention, is not expected to meet the UK gas quality standards enshrined in the Gas Safety (Management) Regulations 1996 (GS(M)R).

The developer has requested, and National Grid NTS has agreed, in principle, to facilitate the project by constructing two NTS connections in close proximity – one for NTS exit and the other for NTS entry. This would facilitate the offtake of GS(M)R compliant gas from the NTS through the exit connection to the coal bed methane facility where it would be commingled by the facility operator with the non-compliant coal bed methane gas. Where the resulting blended gas met GS(M)R compliance, this gas could then enter the NTS via another pipeline linking the coal bed facility to the entry connection. Where this occurs it would be fortuitous, i.e. National Grid NTS would not be obliged to ensure that the gas made available for offtake is of a suitable quality or quantity to enable commingling with the CBM gas to produce a mixture that is GS(M)R compliant. If the blended gas fails to meet GS(M)R compliance then National Grid NTS would curtail the entry of that gas into the NTS via a transportation flow advice (TFA) in the same way as it would do in the case of a gas quality breach at any other System Entry Point.

Under the proposed connection arrangement, it is envisaged that virtually all the gas offtaken from the NTS would be redelivered within day and that the facility would, in effect, offtake and deliver gas simultaneously. This will constitute a new and distinct type of connection on the system and may warrant different transportation charging arrangements than those which apply to other NTS exit and NTS entry connections.

Whilst only one project has to date requested a connection arrangement of this kind, it is possible that this model may be suitable to be adopted by other connections, particularly small scale, unconventional projects, where an upstream processing solution would not be economically or locationally viable.

3 Solution

It is proposed to introduce commercial arrangements which facilitate the connection of this type of facility onto the NTS and a process which facilitates the netting off of each relevant Shipper User's daily entry and exit gas flows at this type of facility from which a net energy allocation would be derived.

Given that virtually all the NTS gas offtaken would be redelivered on the same gas day in essentially the same location, in order to avoid 'double charging', National Grid NTS believes that it would be most cost-reflective to define the chargeable quantity by netting off the end of day entry and exit quantities. Where the end of day entry quantity exceeds the end of day exit quantity, (a 'net entry' flow), the relevant NTS entry commodity charges would be applied to the difference between the end of day entry and exit quantities. Where the end of day exit quantity exceeds the end of day entry quantity, (a 'net exit' flow), the relevant NTS exit commodity charge would be applied to the difference between the end of day entry and exit quantities. Given that the purpose of this type of facility is to deliver gas into the NTS, it is expected that the former would normally prevail.

In essence, it is proposed to implement the following:

- Classify and define this new type of facility in UNC as an 'NTS Commingling Facility';
- Apply NTS commodity charges to the net end of day quantity for each such facility, as described above;
- Incentivise Shipper Users to book sufficient NTS Entry Capacity and NTS Exit Capacity to cover their net end of day quantity in respect of each such facility in order to avoid capacity overrun charges (this is to avoid 'double-charging' as the NTS gas offtaken and redelivered within day would already be 'entry capacity paid');
- Introduce a process which facilitates the netting off of each relevant Shipper User's daily entry and exit gas flows in respect of each such facility from which a net energy allocation would be derived;
- Introduce a requirement for a relevant Shipper User to enter into an ancillary agreement in respect of each such facility in order to facilitate agency arrangements for the allocation of gas;
- Establish allocation agency arrangements for each such facility; and
- Incentivise Shipper User gas flow nominations in respect of each such facility to be consistent with their net end of day quantity in order to avoid scheduling charges (existing input and output scheduling tolerances in UNC will apply).

Business rules to facilitate the above have been developed and are included below.

BUSINESS RULES

Introduction

1. These business rules detail the proposed arrangements under Modification 0363 and have been developed in order to facilitate the production of legal text.
2. Unless otherwise defined, capitalised terms used in these business rules shall have the meaning given to them in the UNC.
3. Where the UNC defined term 'CSEP Daily Quantity Offtaken' appears in these business rules, this is a reference to the total quantity of gas offtaken from the NTS on a Day at an NTS Commingling Facility[1].
4. Where the UNC defined term 'Entry Point Daily Quantity Delivered' appears in these business rules, this is a reference to the total quantity of gas input into the NTS from an NTS Commingling Facility on a Day, (i.e. the quantity of gas offtaken and then redelivered to the NTS on a Day plus the quantity of new production gas delivered to the NTS on that same Day).
5. These business rules include the term 'CSEP Ancillary Agreement' and provide for agency arrangements in respect of gas offtaken, however it is recognised that an Ancillary Agreement and agency arrangements are also required in respect of gas entry arrangements and these will be developed.
6. References in these business rules are to provisions of the UNC Transportation Principal Document.

Site Classification and Definition

7. It is proposed to introduce a new type of connection facility into the UNC - an "NTS Commingling Facility", defined as a gas delivery facility:
    a. which is directly connected to the NTS at an NTS Individual System Exit Point and an NTS Individual System Entry Point which are connected together by a pipeline or pipelines operated by a Connected System Operator; and
    b. whose sole purpose is to deliver new production gas into the NTS whose composition does not comply with the relevant Gas Entry Conditions and is brought into such compliance by commingling with gas offtaken from the NTS; and
    c. which does not consume the gas offtaken from the NTS and does not transport the gas offtaken from the NTS to any other party or network; and
    d. whose operation consists of the simultaneous physical offtake of gas from the NTS and physical redelivery of such gas, together with new production gas delivered from such facility, to the NTS.

    [See new definition of facility at GT Section C1]

8. Pursuant to A3.3[2] and J1.4.1, the Individual System Exit Point at which gas is offtaken from the NTS to an NTS Commingling Facility shall be an NTS Connected System Exit Point.

    [No drafting required]

9. Pursuant to A2.2, A2.3, I1.4 and I1.5[3], the Individual System Entry Point at

[1] See paragraph 12.

[2] A3.3 defines a CSEP as one or more ISEPs which are not Supply Meter Points. A Supply Meter Point is defined at A4.1.1 as an ISEP at which gas may be offtaken from the Total System for the purposes of supply directly to particular premises. Hence, the offtake point in respect of an NTS Commingling Facility is a CSEP. J1.4.1 confirms this.

[3] These references define a System Entry Point and an Aggregate System Entry Point.

which gas is delivered from an NTS Commingling Facility to the NTS shall be an NTS System Entry Point.

[No drafting required].

10. An NTS Commingling Facility is a Connected Offtake System (in relation to which the operator of such facility is the Connected System Operator) in relation to the NTS Connected System Exit Point, and a Connected Delivery Facility (in relation to which the operator of such facility is the Delivery Facility Operator) in relation to the System Entry Point, at which it is connected to the NTS. Accordingly, the definitions of "Connected Offtake System" (J1.4.4) and "Connected Delivery Facility" (I1.2.2) shall be amended to include any facility which offtakes gas from the NTS for the sole purpose of commingling in order to enter gas of a composition that complies with the relevant Gas Entry Conditions.

    [See drafting at TPD Sections I1.2.2, J1.4.4 and J1.4.6]

11. The Entry Point Daily Quantity Delivered and the CSEP Daily Quantity Offtaken in respect of a NTS Commingling Facility will be established by means of flow and energy measurement equipment installed (and operated, maintained, tested and calibrated) by the operator of the NTS Commingling Facility in accordance with procedures established by the operator for such purposes (details of which Users may obtain from the operator).

    [No drafting required - covered in UNC sections J4 and I2. Detail to be addressed in the Operator agreement.]

Operator Agreement

12. In accordance with UNC sections J1.5.2[4], J1.5.4(a)[5] and I1.3.1[6], prior to any gas flow at an NTS Commingling Facility, National Grid NTS and the operator of the NTS Commingling Facility shall be required to have entered into a Network Exit Agreement and a Network Entry Agreement in respect of such facility.

    [No drafting required]

13. The operator agreement shall provide for the operator of a NTS Commingling Facility to notify the Transporter of the 'gross' exit and entry flows after each Day.

    [See new drafting proposed for E1.10.1]

14. The Network Exit Provisions for an NTS Commingling Facility shall include provisions which detail the time by which the operator of such facility is required to submit an Offtake Profile Notice to National Grid NTS on the Preceding Day which details the 'gross' exit flow expectation.

    [No drafting required – see TPD Section J4.3.1(c) and J4.5]

15. The Network Exit Provisions for the NTS Commingling Facility shall include provisions which will specify the number of Days of permitted Planned

[4] J1.5.2 includes a requirement for Network Exit Provisions to be in force in respect of any CSEP.

[5] J1.5.4(a) sets out a requirement for Network Exit Provisions to be contained in a Network Exit Agreement.

[6] I1.3.1 sets out a requirement for a Network Entry Agreement containing Network Entry Provisions to be in force in order to enable a User to deliver gas at any System Entry Point.

Maintenance in any Planned Maintenance Period and any three consecutive Planned Maintenance Periods in relation to the Connected System Exit Point.

[No drafting required, see TPD Section J4.3.1(f)]

16. The Network Entry Provisions shall include a requirement for the operator of an NTS Commingling Facility to submit a daily flow notification on the Preceding Day which details the 'gross' entry flow expectation.

    [No drafting required – detail to be contained in the Operator agreement – see TPD Section I2.6.2]

Agency Arrangements – General

17. Pursuant to J6[7], a CSEP Ancillary Agreement in respect of an NTS Commingling Facility shall include provisions which ensure that if there is more than one CSEP User at the NTS CSEP, those Users shall be bound by common allocation agency arrangements for the purpose of submitting Exit Allocation Statements[8] on their behalf in respect of the NTS Commingling Facility.

    [No drafting required – detail to be addressed in the Ancillary Agreement]

Agency Arrangements – Multiple Users as original parties to the CSEP Ancillary Agreement

18. Where more than one User wishes to become a party to a CSEP Ancillary Agreement in respect of an NTS Commingling Facility, those Users will be required to appoint an allocation agent and agree the terms of the agency agreement with such agent. The agency agreement should then be sent to National Grid NTS who will send it to Ofgem for approval. When approved by Ofgem it will then become the "Designated Agency Agreement" in respect of the NTS Commingling Facility.

19. Each User shall enter into the Designated Agency Agreement (and comply with any requisite provisions in such agreement) before they become parties to the CSEP Ancillary Agreement. On becoming a party to the CSEP Ancillary Agreement the User will then become a CSEP User.

20. A CSEP User will cease to be a CSEP User and party to the CSEP Ancillary Agreement if it ceases to be a party to the Designated Agency Agreement.

    [No drafting required – detail to be addressed in the Ancillary Agreement and Designated Agency Agreement]

Agency Arrangements – Single User as original party to the CSEP Ancillary Agreement

21. Subject to the arrangements detailed below, where only one User enters into a CSEP Ancillary Agreement in respect of an NTS Commingling Facility, that User ("the Sole Party") may, but shall not be required to appoint an allocation agent and enter into the Designated Agency Agreement.

22. Where the Sole Party is the only Party to the CSEP Ancillary Agreement on the date another User (or Users) wishes to enter into the CSEP Ancillary Agreement then National Grid NTS will so notify the Sole Party and within twenty (20) Business Days following the date of receipt of such notification, the Sole Party will provide to National Grid NTS:

[7] J6 sets out special provisions for CSEPs which include provisions for relevant Users to accede to a CSEP Ancillary Agreement.

[8] Similar arrangements will be required in respect of Entry Allocation Statements

(a) a copy of the Designated Agency Agreement which has been entered into by the Sole Party and the allocation agent; and

(b) written evidence from the allocation agent that all requirements to give effect to the Designated Agency Agreement have been met by the Sole Party.

23. If the Sole Party does not comply with paragraph 26 above, it will cease to be a CSEP User and a party to the CSEP Ancillary Agreement[9].

[No drafting required – detail to be addressed in the Ancillary Agreement and Designated Agency Agreement]

Agency Arrangements – Accession to the CSEP Ancillary Agreement

24. Where a User wishes to become a CSEP User and a party to an existing CSEP Ancillary Agreement in respect of an NTS Commingling Facility, such User will be required to accede to it. Before it may do so it must enter into the Designated Agency Agreement with the agent and comply with any requirements stipulated in such Designated Agency Agreement.

[No drafting required – see TPD Section J6.3.1 and J6.5.2]

Allocation Arrangements

25. Allocations of gas at an NTS Commingling Facility shall be based on Users' end of day 'net' position, i.e. Users will be allocated gas based on the absolute difference between the CSEP Daily Quantity Offtaken and Entry Point Daily Quantity Delivered.

26. UNC requirements for the aggregate of Users' allocations at a System Entry Point to be equal to the Entry Point Daily Quantity Delivered (E2.1.7(b)) and the aggregate of Users' allocations at a Connected System Exit Point to be equal to the CSEP Daily Quantity Offtaken (E3.2.6(b)) shall not apply in respect of NTS Commingling Facilities.

27. Instead, where, on a Day at an NTS Commingling Facility, the Entry Point Daily Quantity Delivered exceeds the CSEP Daily Quantity Offtaken, the aggregate quantity of gas stated in all Entry Allocation Statements in respect of the System Entry Point shall be equal to the Entry Point Daily Quantity Delivered minus the CSEP Daily Quantity Offtaken and the aggregate quantity of gas stated in all Exit Allocation Statements in respect of the NTS Connected System Exit Point shall be zero. Each User that receives such allocations shall be treated as a Delivering User on that Day for the purposes of section I and shall not be treated as an Offtaking User on that Day for the purposes of section J.

[The drafting approach is to redefine 'Entry Point Daily Quantity Delivered' and 'CSEP Daily Quantity Offtaken' where these terms apply to a NTS Commingling Facility such that they refer to the 'net entry' or 'net exit' flow on a Day – see suggested new text for TPD Section E1.10.2. The business rules contemplated these terms as referring to the 'gross' entry and exit daily quantities. See also new drafting E1.10.3(b) in relation to Business Rule 27].

28. If, for a Day on which the Entry Point Daily Quantity Delivered exceeds the CSEP Daily Quantity Offtaken the allocation condition specified in the above

[9] This allows the Sole Party to enter into the CSEP Ancillary Agreement where no other Users are ready to do so at that time but it prevents the Sole Party from blocking other Users from entering into the CSEP Ancillary Agreement by not signing the Designated Agency Agreement.

paragraph 31 is not satisfied, the UDQI for each User shall be determined in accordance with E2.1.8[10] and E2.1.9[11], save that the quantity of gas to be allocated shall not be equal to the Entry Point Daily Quantity Delivered but shall instead be equal to the Entry Point Daily Quantity Delivered minus the CSEP Daily Quantity Offtaken. In the event that E2.1.8 and E2.1.9 cannot facilitate an allocation of gas because no User has submitted an Input Nomination for the Day and on the Preceding Day each User received a UDQO by virtue of the CSEP Daily Quantity Offtaken having exceeded the Entry Point Daily Quantity Delivered, the UDQI for each User shall be determined in the proportions in which such UDQOs were determined on the Preceding Day.

[See new drafting for TPD Section E1.10.4(a)]

29. Where on a Day at an NTS Commingling Facility, the CSEP Daily Quantity Offtaken exceeds the Entry Point Daily Quantity Delivered, the aggregate quantity of gas stated in all Entry Allocation Statements in respect of the System Entry Point for that Day shall be zero and the aggregate quantity of gas stated in all Exit Allocation Statements in respect of that Day shall be equal to the CSEP Daily Quantity Offtaken minus the Entry Point Daily Quantity Delivered. Each User that receives such allocations shall be treated as an Offtaking User on that Day for the purposes of section J of UNC and shall not be treated as a Delivering User for the purposes of section I of UNC.

    [See new drafting for TPD Section E1.10.3(a)]

30. If for a Day on which the CSEP Daily Quantity Offtaken exceeds the Entry Point Daily Quantity Delivered the allocation condition specified under the above paragraph 33 is not satisfied, the UDQO for each User shall be determined in accordance with E3.2.7 and E3.2.8[12] save that the quantity of gas to be allocated shall not be equal to the CSEP Daily Quantity Offtaken but shall instead be equal to the CSEP Daily Quantity Offtaken minus the Entry Point Daily Quantity Delivered. In the event that E3.2.7 and E3.2.8 cannot facilitate an allocation of gas because no User has submitted an Output Nomination for the Day and on the Preceding Day each User received a UDQI by virtue of the Entry Point Daily Quantity Delivered having exceeded the CSEP Daily Quantity Offtaken, the UDQO for each User shall be determined in the proportions in which such UDQIs were determined on the Preceding Day.

    [See new drafting for TPD Section E1.10.4(b)]

31. Section I3.1.2 defines each User's Delivery Proportion for a Day in respect of a System Entry Point as that User's UDQI for that Day divided by the Entry Point Daily Quantity Delivered. In relation to an NTS Commingling Facility, this definition shall be amended such that each User's Delivery Proportion shall be equal to that User's UDQI for the Day divided by the sum of all Users' UDQIs in relation to the System Entry Point for that Day.

    [No drafting required due to the redefinition of Entry Point Daily Quantity Delivered in respect of NTS Commingling Facilities]

[10] E2.1.8 provides a first default mechanism to allocate gas to Delivering Users at a System Entry Point if Entry Allocation Statements have either not been submitted in time or where the sum of Users' entry allocations (UDQIs) does not equal the measured quantity of gas input to the system on that Day. The mechanism is to allocate in proportion to the Users' Input Nominations for the relevant Day at the relevant System Entry Point.

[11] E2.1.9 provides a second default mechanism to cater for a situation where E2.1.8 is relevant but no User made an Input Nomination for the Day in respect of the relevant System Entry Point. This mechanism is to allocate gas in the proportions in which the equivalent quantity was allocated on the previous Day.

[12] E3.2.7 and E3.2.8 mirror E2.1.8 and E2.1.9 for exit flows at a CSEP.

32. Section J3.1.2 defines the Offtake Proportion of an Offtaking User for a Day in respect of a Connected System Exit Point as being equal to that User's UDQO for that Day divided by the CSEP Daily Quantity Offtaken. In relation to an NTS Commingling Facility, this definition shall be amended such that each User's Offtake Proportion shall be equal to that User's UDQO for that Day divided by the sum of all Users' UDQOs in relation to the NTS Connected System Exit Point for that Day.

    [No drafting required due to the redefinition of CSEP Daily Quantity Offtaken in respect of NTS Commingling Facilities]

Gas Flow Nominations

33. A User at a NTS Commingling Facility shall be required to submit only one gas flow nomination which details its 'net' entry / exit flow expectation.

    [No drafting required].

34. Where on a Day, the Entry Point Daily Quantity Delivered exceeds the CSEP Daily Quantity Offtaken and a User accordingly receives a UDQI allocation equal to its 'net entry' end of day flow at an NTS Commingling Facility, in order to avoid any scheduling charge, that User shall (subject to the application of input scheduling tolerances detailed in F3.2) be required to have submitted for that Day an Input Nomination in respect of the NTS Commingling Facility equal to such UDQI and an Output Nomination equal to zero.

    [No drafting required].

35. Where on a Day, the CSEP Daily Quantity Offtaken exceeds the Entry Point Daily Quantity Delivered and a User accordingly receives a UDQO allocation greater than zero (a 'net exit' end of day flow) at an NTS Commingling Facility, in order to avoid any scheduling charge that User shall (subject to the application of the relevant output scheduling tolerance detailed in F3.3.2(d)) be required to have submitted for that Day an Output Nomination in respect of the NTS Commingling Facility equal to such UDQO and an Input Nomination equal to zero.

    [No drafting required.]

Entry Capacity Requirements

36. The Individual System Entry Point at which an NTS Commingling Facility is connected to the NTS shall be a System Entry Point which may of itself constitute an Aggregate System Entry Point or be comprised with another System Entry Point(s) to form one Aggregate System Entry Point.

37. Prevailing NTS Entry Capacity booking rules shall apply in respect of the Aggregate System Entry Point in respect of NTS Commingling Facilities.

38. Prevailing rules associated with System Entry Overrun Charges shall apply in respect of NTS Commingling Facilities.

39. Irrespective of whether a User has booked NTS Entry Capacity in respect of an Aggregate System Entry Point associated with a NTS Commingling Facility, a User shall not be entitled to deliver gas if any of the required agreements (Network Entry Agreement, Network Exit Agreement, Ancillary Agreement and (where there is more than one User) Designated Agency Agreement) have not been entered into by the relevant parties. In such circumstances, National Grid NTS shall not be obliged to accept gas into the NTS at that System Entry Point and shall have no liability to the User for its refusal to do so.

    [No drafting required].

Exit Capacity Requirements

40. The Individual System Exit Point at which a NTS Commingling Facility is connected to the NTS shall be an NTS Connected System Exit Point.

41. Enduring (B3) NTS Exit Capacity booking rules shall apply in respect of the NTS Connected System Exit Point associated with a NTS Commingling Facility[13].

42. Enduring (B3) rules associated with NTS Exit Capacity overrun charges shall apply in respect of NTS Commingling Facilities.

43. Irrespective of whether a User has booked NTS Exit Capacity in respect of an NTS Connected System Exit Point associated with a NTS Commingling Facility, a User shall not offtake gas from the NTS at the NTS Connected System Exit Point until all required agreements have been entered into by the relevant parties with National Grid NTS. In such circumstances, National Grid NTS shall not be obliged to make gas available for offtake and shall have no liability to the User for failure to make gas available for offtake.

[No drafting required].

Daily Quantities and User Imbalances

44. The UDQI (or as the case may be, UDQO) determined for each User at an NTS Commingling Facility on the basis set out in the 'Allocation Arrangements' section of these Business Rules will contribute to each User's daily imbalance position as provided in TPD E5.1.

[No drafting required].

System Clearing Arrangements

45. For the purposes of calculating a User's Daily Imbalance Charge, Scheduling Charges, Balancing Neutrality Charges and Reconciliation Neutrality Charges for each Day in respect of an NTS Commingling Facility, a User's UDQI or as the case may be, UDQO shall be used, as calculated in accordance with these business rules.

[No drafting required].

Constraint Management

46. Prevailing rules in relation to Capacity Management and enduring (B3) rules in relation to Exit Constraint Management Actions will apply to the System Entry Point and NTS CSEP associated with an NTS Commingling Facility.

[No drafting required].

Transportation Charges

47. No changes to Transportation Charges are proposed by the UNC changes being developed for NTS Commingling Facilities.

48. On a Day where the Entry Point Daily Quantity Delivered exceeds the CSEP Daily Quantity Offtaken, each User at an NTS Commingling Facility will pay NTS Entry Commodity charges in respect of the System Entry Point based upon its UDQI for that Day. On such a Day, Users' UDQOs will be equal to zero therefore NTS Exit Commodity charges will not apply.

[13] An implementation date of 1st October 2012 is proposed for Modification 0363, therefore the enduring exit capacity arrangements will apply.

49. On a Day where the CSEP Daily Quantity Offtaken exceeds the Entry Point Daily Quantity Delivered, each User at such NTS Commingling Facility will pay NTS Exit Commodity charges in respect of the Connected System Exit Point based upon its UDQO for that Day. On such a Day, Users' UDQIs will be equal to zero therefore NTS Entry Commodity charges will not apply.

50. Charges pursuant to any bookings of NTS Entry Capacity or NTS Exit Capacity made by Users at an NTS Commingling Facility shall be levied irrespective of whether such Users are allocated UDQIs or UDQOs on any particular Day.

51. Where a User intends to be a Delivering User at the System Entry Point associated with an NTS Commingling Facility and an Offtaking User at an NTS Supply Point or NTS CSEP that User may opt for the NTS Optional Commodity Rate. The quantity of gas eligible to attract the NTS Optional Commodity Rate on a Day shall be the lesser of the User's UDQI in relation to the NTS Commingling Facility and the User's UDQO in relation to the relevant NTS Supply Point or NTS Connected System Exit Point.

[No drafting required].

Licence Changes

52. The NTS Connected System Exit Point and the Aggregate System Entry Point of an NTS Commingling Facility must be listed in the NTS Licence before NTS Entry Capacity or NTS Exit Capacity can be made available.

[No drafting required].

Appendix 1

Worked Examples of 'net entry' and 'net exit' end of day positions

Net Entry Flow

End of day gas offtake (CSEP Daily Quantity Offtaken) : 15 GWh
End of day gas entry (Entry Point Daily Quantity Delivered): 20 GWh

Sum of Users UDQIs at the System Entry Point = 5 GWh
Sum of Users UDQOs at the Connected System Exit Point = 0 GWh
Aggregate Users Input Nominations required: 5 GWh
Aggregate Users Output Nominations required: 0 GWh
Aggregate Users NTS Entry Capacity required: 5 GWh
Aggregate Users NTS Exit Capacity required: 0 GWh
NTS Entry Commodity charges levied on 5 GWh
NTS Exit Commodity charges levied on 0 GWh

Net Exit Flow

End of day gas offtake (CSEP Daily Quantity Offtaken) : 20 GWh
End of day gas entry (Entry Point Daily Quantity Delivered): 15 GWh

Sum of Users UDQIs at the System Entry Point = 0 GWh
Sum of Users UDQOs at the Connected System Exit Point = 5 GWh
Aggregate Users Input Nominations required: 0 GWh
Aggregate Users Output Nominations required: 5 GWh
Aggregate Users NTS Entry Capacity required: 0 GWh
Aggregate Users NTS Exit Capacity required: 5 GWh
NTS Entry Commodity charges levied on 0 GWh
NTS Exit Commodity charges levied on 5 GWh

Appendix 2
Worked Examples of Default Allocation Arrangements (Multi-User Scenarios)

Scenario 1

- Net Entry End of Day Position
- Agent either fails to submit an Entry Allocation Statement or submits a statement but the sum of the Users' allocations do not equal the net entry end of day position.

Therefore, Input Nominations determine allocation as per E2.1.8

End of day gas offtake (CSEP Daily Quantity Offtaken): 15 GWh
End of day gas entry (Entry Point Daily Quantity Delivered): 20 GWh

Allocation rules require sum of Users UDQIs at the System Entry Point to equal 5 GWh
Allocation rules require sum of Users UDQOs at the Connected System Exit Point to equal 0 GWh
Aggregate Users Input Nominations required: 5 GWh
Actual Input Nominations submitted for the day
User A – 2 GWh (40%)
User B – 2 GWh (40%)
User C – 1 GWh (20%)
Aggregate Users Output Nominations required: 0 GWh
'Default' input allocations (UDQIs) based on Input Nominations
User A – 2 GWh (40%)
User B – 2 GWh (40%)
User C – 1 GWh (20%)

Scenario 2

- Net Entry End of Day Position
- Agent either fails to submit an Entry Allocation Statement or submits a statement but the sum of the Users' allocations do not equal the net entry end of day position;
- Failure of Users to submit input nominations:

Therefore, D-1 Input allocations determine allocation as per E2.1.9

End of day gas offtake (CSEP Daily Quantity Offtaken): 15 GWh
End of day gas entry (Entry Point Daily Quantity Delivered): 20 GWh

Allocation rules require sum of Users UDQIs at the System Entry Point to equal 5 GWh
Allocation rules require sum of Users UDQOs at the Connected System Exit Point to equal 0 GWh
Aggregate Users Input Nominations required: 5 GWh
Actual Input Nominations submitted for the day
User A – 0 GWh
User B – 0 GWh
User C – 0 GWh
Aggregate Users Output Nominations required: 0 GWh
'Default' input allocations (UDQIs) are made in the proportions in which the equivalent input quantity was allocated on D-1

D-1 End of day gas offtake (CSEP Daily Quantity Offtaken): 25 GWh
D-1 End of day gas entry (Entry Point Daily Quantity Delivered): 50 GWh

Sum of Users UDQIs at the System Entry Point = 25 GWh

Sum of Users UDQOs at the Connected System Exit Point = 0 GWh

Agent input allocations (UDQIs)

User A – 12 GWh input (48%)

User B – 10 GWh input (40%)

User C – 3 GWh input (12%)

Default User allocations (UDQIs) for D

User A – 2.4 GWh (48%)

User B – 2 GWh (40%)

User C – 0.6 GWh (12%)

Scenario 3

- Net Entry End of Day Position
- Agent either fails to submit an Entry Allocation Statement or submits a statement but the sum of the Users' allocations do not equal the net entry end of day position;
- Failure of Users to submit input nominations for the day;
- No input allocations made on the preceding day

Therefore, D-1 Exit Allocations determine allocation – Business Rule 27

End of day gas offtake (CSEP Daily Quantity Offtaken): 15 GWh

End of day gas entry (Entry Point Daily Quantity Delivered): 20 GWh

Allocation rules require sum of Users UDQIs at the System Entry Point to equal 5 GWh

Allocation rules require sum of Users UDQOs at the Connected System Exit Point to equal 0 GWh

Aggregate Users Input Nominations required: 5 GWh

Actual Input Nominations submitted for the day

User A – 0 GWh

User B – 0 GWh

User C – 0 GWh

Aggregate Users Output Nominations required: 0 GWh

'Default' input allocations (UDQIs) are made in the proportions in which the net exit quantity was allocated on D-1

D-1 End of day gas offtake (CSEP Daily Quantity Offtaken): 25 GWh

D-1 End of day gas entry (Entry Point Daily Quantity Delivered): 15 GWh

Sum of Users UDQIs at the System Entry Point = 0 GWh

Sum of Users UDQOs at the Connected System Exit Point = 10 GWh

Agent exit allocations (UDQOs)

User A – 5 GWh (50%)

User B – 3 GWh (30%)

User C – 2 GWh (20%)

Default User allocations (UDQIs) for D

User A – 2.5 GWh (50%)

User B – 1.5 GWh (30%)

User C – 1 GWh (20%)

4 Relevant Objectives

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

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.	None
c) Efficient discharge of the licensee's obligations.	See below
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.	See below
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

Achievement of Relevant Objective (d)

Implementation of this Modification would define an additional class of connection. Connections that match the definition would not pay separate entry and exit transportation charges based on the amount of energy offtaken and input to the network, but would instead be invoiced based on the net flow, which would be expected to be positive with energy input exceeding that offtaken. This seeks to reflect the particular circumstances of gas being offtaken solely for the purpose of commingling, with gas being returned to the NTS close to the point of exit – both geographically and temporally.

The gas that is offtaken for commingling purposes will already have attracted the appropriate charge when entering the system. Similarly, the gas that re-enters the NTS will subsequently be withdrawn and will attract exit charges as appropriate. Applying charges on a net basis therefore avoids the potential for what might be regarded as double charging. In addition, National Grid NTS would not anticipate any material impact on transportation and system operation costs associated with the gross, as opposed to net, flows of gas. Charges based on the net flow are therefore

consistent with the principle that charges should be cost reflective, and that Users should face charges that are commensurate with the costs they impose on the network. Implementation could therefore be expected to facilitate effective competition since costs would be appropriately allocated, avoiding inappropriate discrimination and cross subsidies. In addition, maintaining cost reflective charges would facilitate achievement of National Grid's licence obligations with respect to this element.

Implementation could also better facilitate the securing of effective competition between shippers to the extent that it enables additional supplies of gas to be delivered to the market that may be uneconomic to produce if transportation charges were applied without netting off. These additional sources will compete with existing supplies and will thus potentially displace other higher cost supplies, to the benefit of GB gas consumers.

Achievement of Relevant Objective (c)

Standard Special Condition A6 of the Transporters Licence – Conduct of Transportation Business

The inclusion of terms for NTS Commingling Facilities in the UNC is the manner best calculated to secure that any gas shipper does not obtain any unfair commercial advantage from a preferential or discriminatory arrangement (SSC A6(1)) by ensuring that all Shipper Users that may wish to make arrangements for the entry of gas into the NTS at a NTS Commingling Facility are subject to common terms described in the UNC.

Standard Special Condition A7 of the Transporters Licence – Requirement to Enter into Transportation Arrangements in Conformity with the Network Code

To the extent that the UNC does not currently contain specific provision for the simultaneous transportation of gas to and from a facility that is directly connected to the NTS, this modification would better facilitate this licence condition (and consequently the relevant objective of the efficient discharge of the licensee's obligations) by ensuring that National Grid Transmission is providing relevant Transportation Arrangements in conformity with its Network Code.

5 Impacts and Costs

Consideration of Wider Industry Impacts

Developers of NTS entry projects and their shippers will have an alternative method of connection available to them and a process to facilitate the netting off of physical daily gas flows to derive net energy allocations. It is considered that this model may be particularly suited to small scale connections of unconventional gas sources, where an upstream processing solution would not be economically or locationally viable.

Costs

In order to implement the Modification, National Grid NTS intends to put in place a daily netting off process using existing systems functionality. This will involve adopting a new National Grid NTS process to determine the net end of day quantity from the total measured quantities of gas offtaken from, and input to, the NTS. Where a single Shipper User is registered at an NTS Commingling Facility, that Shipper User's gas allocation for the day would be equal to the net end of day quantity. Where there is more than one Shipper User registered at an NTS Commingling Facility, an allocation agent would be required who would be responsible for allocating the net end of day quantity among the relevant Shipper Users.

National Grid NTS believes that the proposed netting off process using existing systems functionality would facilitate the coal bed methane project and represents the most economic and efficient implementation option.

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
Not User Pays. There are no incremental costs associated with the operation of the proposed netting off process and no changes to xoserve systems or processes are required.
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	No impacts anticipated.
Operational Processes	A new netting off process will need to be implemented as described in section 5 of this modification. This can be achieved via a slight modification to an existing National Grid NTS process without incurring additional costs.
User Pays implications	None.

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	None.
Development, capital and operating costs	None.
Contractual risks	There are not envisaged to be any consequences on the level of contractual risk to Users generally. However, any Shipper User utilising this new type of facility would be exposed to the risk of being prevented from delivering gas to the NTS where a GS(M)R compliant mix could not be achieved by the commingling activity.
Legislative, regulatory and contractual obligations and relationships	None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	Due to the expected short time of flight from gas offtake to gas input, National Grid NTS may need to monitor the quality of the gas entering the NTS from this type of facility more closely but otherwise would manage this in the same way as any other NTS entry connection.
Development, capital and operating costs	None.
Recovery of costs	No cost recovery mechanism is required.
Price regulation	None.
Contractual risks	The level of contractual risk for the Transporter will be unchanged due to the 'fortuitous' nature of the commingling activity that will be conducted on the facility operator's system.
Legislative, regulatory and contractual obligations and relationships	None.
Standards of service	None.

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	None.
UNC Committees	None.
General administration	None.

Impact on Code	
Code section	Potential impact

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 Code	
TPD section E	Amend the requirement for aggregate shipper allocations to equal physical flows at entry and exit to one where they equal the net end of day quantity at this type of facility. Amend the contingency entry and exit allocation arrangements in respect of this new type of facility.
TPD section I	Include this type of facility within the definition of a "Connected Delivery Facility". Amend the definition of "Delivery Proportion" for this type of facility.
TPD section J	Include this type of facility within the definition of a "Connected Offtake System". Amend the definition of "Offtake Proportion" for this type of facility.
	It will also be necessary to describe the site classification and definition within UNC.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	A combined Network Entry Agreement and Network Exit Agreement is envisaged for this type of facility.
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	An ancillary agreement is envisaged to register Shipper Users at each NTS Commingling Facility and to facilitate common agency arrangements between Shipper Users at each such facility via accession to a designated agency agreement pursuant to TPD J6.5.2.
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.

Impact on UNC Related Documents and Other Referenced Documents	
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	Entry and exit points for this type of facility will need to be included in National Grid NTS' Licence.

Other Impacts	
Item impacted	Potential impact
Security of Supply	Provided that NTS gas is available at the right quality and quantity to facilitate commingling to GS(M)R specification, security of supply will be enhanced due to the admission of additional indigenous volumes into the NTS. However, if the mixing stream was not available, neither would new production from this type of facility which would be to the detriment of security of supply.
Operation of the Total System	As 'System Operation' above.
Industry fragmentation	None.
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	This modification is designed specifically to facilitate the input of coal bed methane to the NTS. However, the transportation charging arrangement proposed could apply to Shipper Users registered at other System Entry Points if those facilities qualify under the proposed definition of a "NTS Commingling Facility".

6 Implementation

If the Authority issues a decision on this Modification before 30th September 2012, it is proposed that the Fixed Implementation Date should be 1st October 2012.

If the Authority issues a decision on this Modification by 2nd October 2012, it is proposed that the Fixed Implementation Date should be 3rd October 2012.

In the event that the Authority issues a decision later than 2nd October 2012, it is proposed that the Backstop Leadtime should be one calendar day after the date of the Authority decision.

The reasoning behind the first Fixed Implementation Date of 1st October 2012 is that no NTS Commingling Facility is expected to be connected to the NTS before this date and so the legal text does not need to cater for transitional exit arrangements. The second Fixed Implementation Date of 3rd October 2012 and the Backstop Leadtime are not expected to be relevant but are included in order to comply with the Modification Rules.

7 The Case for Change

None in addition to that identified above.

8 Legal Text

Legal Text

TPD SECTION E – DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

Amend paragraph 1.9.6 to read as follows:

"In this paragraph 1.9 and paragraph 1.10~~.~~:

(a) ….

Add new paragraph 1.10 to read as follows (and renumber existing paragraphs 1.10 and 1.11 as paragraphs 1.11 and 1.12 respectively):

1.10 NTS Commingling Facility

1.10.1 In relation to a NTS Commingling Facility, the Connected System Agreement shall provide for the Connected System Operator to notify the Transporter in relation to each Day in respect of which gas flows out of the NTS to a NTS Commingling Facility and from the NTS Commingling Facility into the NTS of:

(a) a quantity (the "**gross commingling exit quantity**") which represents the quantity of gas offtaken from the NTS at the Connected System Exit Point on the Day; and

(b) a quantity (the "**gross commingling entry quantity**") which represents the quantity of gas delivered to the NTS at the System Entry Point on the Day.

1.10.2 In relation to a NTS Commingling Facility in respect of a Day in relation to which the Connected System Operator notifies the Transporter of:

(a) a gross commingling exit quantity which is greater than the gross commingling entry quantity, the Entry Point Daily Quantity Delivered shall be zero and the CSEP Daily Quantity Offtaken shall be the quantity equal to the gross commingling exit quantity less the gross commingling entry quantity;

(b) a gross commingling entry quantity which is the greater than the gross commingling exit quantity the CSEP Daily Quantity Offtaken shall be zero and the Entry Point Daily Quantity Delivered shall be the quantity equal to the gross commingling entry quantity less the gross commingling exit quantity.

1.10.3 In respect of any Day in relation to which:

(a) paragraph 1.10.2(a) applies, each User who made or is deemed (pursuant to any provision of the Code) to have made an Input Nomination in respect of the Connected Exit System Point shall not be,

notwithstanding such nomination, a Delivering User at such point on such Day (including for the purposes of Section I);

(b) paragraph 1.10.2(b) applies, each User who made or is deemed (pursuant to any provision of the Code) to have made an Output Nomination in respect of the System Entry Point shall not be, notwithstanding such nomination, an Offtaking CSEP User at such point on such Day (including for the purposes of Section J).

1.10.4 Where in respect of a Day no allocation can be made in accordance with:

(a) paragraph 2.1.9 as no User was a Delivering User on the Preceding Day, the Entry Point Daily Quantity Delivered shall be allocated to Delivering Users in the proportion to which the CSEP Daily Quantity Offtaken was allocated to Offtaking CSEP Users on the Preceding Day;

(b) paragraph 3.2.8 as no User was a Offtaking CSEP User on the Preceding Day, the CSEP Daily Quantity Offtaken shall be allocated to Offtaking CSEP Users in the proportion to which the Entry Point Daily Quantity Delivered was allocated to Delivering Users on the Preceding Day.

1.10.5 In relation to a NTS Commingling Facility the Connected System Agreement shall require the Connected System Operator to install volume and calorimetric measurement equipment at the Connected System Exit Point and the System Entry Point comprised in such facility by means of which the gross commingling exit quantity and the gross commingling entry quantity shall be determined.

TPD SECTION I – ENTRY REQUIREMENTS

Amend paragraph 1.2.2 to read as follows:

"….

(d) ….; ~~or~~

(e) …..; or

(f) a facility for the commingling of gas, at which gas is offtaken from the NTS and commingled with other gas prior to the commingled gas being delivered to the NTS."

TPD SECTION J – EXIT REQUIREMENTS

Amend paragraph 1.4.4 to read as follows:

"….

(d) ….~~.~~; or

(e) a facility for commingling gas, at which gas is offtaken from the NTS and commingled with other gas prior to the commingled gas being delivered to the NTS."

Amend paragraph 1.4.6 to read as follows:

"….(for example in the case of a Storage Facility or a NTS Commingling Facility) ….".

GT SECTION C – INTERPRETATION

Insert (alphabetically) new defined term to read as follows:

"**NTS Commingling Facility**" is a Connected Offtake System and a Connected Delivery Facility at which:

(a) gas is offtaken from the NTS and commingled with other gas, such other gas having not previously been offtaken from or delivered to the NTS, for the sole purpose of facilitating compliance with the Gas Entry Conditions that are applicable in respect of the System Entry Point;

(b) the commingled gas is delivered to the NTS;

(c) the offtake from, and delivery of gas to, the NTS occurs simultaneously; and

(d) no gas previously offtaken from, or delivered to, the NTS is consumed, processed or stored at the facility or transported to any other pipeline or pipeline system.

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	**Support Implementation or not?**
Greenpark Energy	Support
Scotia Gas Networks	Comments
ScottishPower	Support

Of the three representations received two supported implementation, and one provided comments.

Summary Comments

In its response, Greenpark emphasised that in the event that this solution (or similar solution) was not implemented then the costs of bringing coalbed methane gas to market are likely to be prohibitive. In its view, the proposed solution does provide for cost-reflectivity in charges and, coupled with the delivery of new gas into the market, is consistent with the objective of promoting competition. Greenpark also indicated that there would be costs to a developer of building the infrastructure to facilitate commingling, although these would be less than those which would be incurred if such a service was not available. It should also be noted that additional costs would be incurred by the developer in terms of measurement equipment for volumes and quality at both the NTS exit and NTS entry points.

Scotia Gas Networks wished to emphasise that this is one possible solution which can be utilised in order for unconventional gas sources to meet entry requirements and so should not hinder other solutions (both commercial and legislative/regulatory) being progressed. It is also important to note that this solution has been developed for one specific entry point on the transmission system and so should not be utilised as a precedent for any potential subsequent modifications for the distribution network. This applies to the current work being carried out for Modification 0391 to develop a charging structure for DN entry, which should be considered in separation from Modification 0363V.

Whilst comfortable that the legal text will deliver the intent of the modification, ScottishPower have one slight reservation regarding the proposed narrow definition of "NTS Commingling Facility", questioning whether it would not have been preferable to opt for a more wide-ranging, generic definition that concentrated on the unique features involved. This may have future advantages in the event that other facilities with similar characteristics were to be proposed that could then be captured by this definition without the need for any further UNC modification.

10 Panel Discussions

The Panel Chair summarised that the Modification seeks to apply the UNC regime on the basis of net rather than gross flows in defined circumstances. This is particularly targeted at prospective entry points where gas may be taken off the NTS, commingled with gas from the entry facility, and returned to the system. Basing the UNC regime on the net flow effectively applies all charges to the additional flow as if it had entered the NTS directly.

The gas that is offtaken for commingling purposes will already have attracted the appropriate charge when entering the system. Similarly, the gas that re-enters the NTS will subsequently be withdrawn and will attract exit charges as appropriate. Applying charges on a net basis therefore avoids the potential for what might be regarded as double charging, and can be regarded as ensuring the additional flow is treated on the same basis as other gas entering the system.

National Grid NTS does not anticipate any material impact on transportation and system operation costs associated with the gross, as opposed to net, flows of gas. Charges based on the net flow are therefore consistent with the principle that charges should be cost reflective, and that Users should face charges that are commensurate with the costs they impose on the system.

Implementation would therefore be expected to facilitate effective competition since costs would be appropriately allocated, avoiding inappropriate discrimination and cross subsidies. In addition, maintaining cost reflective charges would facilitate achievement of National Grid's licence obligations with respect to this element.

Implementation could also better facilitate the securing of effective competition between shippers to the extent that it enables additional supplies of gas to be delivered to the market that may be uneconomic to produce if the UNC regime were applied without netting off. These additional sources will compete with existing supplies and will thus potentially displace other higher cost supplies, to the benefit of GB gas consumers.

Panel Members then voted unanimously in favour of recommending implementation.

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.	None
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	Positive

transportation arrangements with other relevant gas transporters) and relevant shippers.	
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

11 Recommendations

Panel Recommendation

Having considered Modification Report 0363V, the Panel recommends:

- that proposed Modification 0363V should be made.