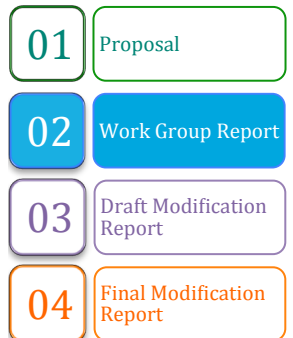


Stage 02: Work Group Report

0352:

The Introduction of an Interruptible Reverse Flow service at Moffat Interconnector

What stage is this document in the process?



This modification proposal seeks to amend and restate the Moffat CSEP Ancillary Agreement to incorporate provisions for an Interruptible Reverse Flow service at Moffat Interconnector.



The Proposer recommends that this Modification proceeds to workstream for discussion.



High Impact:



Medium Impact:

National Grid NTS and Shippers.



Low Impact:

0352

Work Group Report

16 December 2010

Version 1.0

Page 1 of 17

© 2010 all rights reserved

Contents

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

About this document:

The purpose of this report is make a recommendation to the Panel, to be held 16 June 2011, on whether 0352 Modification is sufficiently developed to proceed to the Consultation Phase and to submit any further recommendations in respect of the definition and development of this Modification.



3 **Any questions?**

5 Contact:
Joint Office



6 **enquiries@gasgovern**
9 **ance.co.uk**



11 **0121 623 2115**

15 Proposer:
16 **Mike Wassell**



17 **Mike.J.Wassell@uk.n**
grid.com



01926 654 167

Transporter:
Insert name



...@...



0000 000 000

xoserve:
Insert name



...@...



0000 000 000

0352
Work Group Report
16 December 2010

Version 1.0

Page 2 of 17

© 2010 all rights reserved

1 Summary

Why Change?

Currently GB has three Gas interconnector points, namely Bacton IUK, BBL and Moffat. IUK operates, between Bacton and Zeebrugge, a Bi-directional service that has the capability to physically flow gas both into and out of the UK. BBL has recently introduced a commercial exit service providing for commercial flows out of the UK (to the Netherlands) in addition to the physical capability to flow into the UK at Bacton, whilst Moffat currently operates a physical service out of the GB to Northern Ireland and Eire only.

National Grid NTS signalled its intent to introduce a reverse flow service at all Interconnectors in 2009 primarily to further integrate markets and facilitate greater market liquidity. Since then discussions have been ongoing with Gaslink and Ofgem regarding the introduction of a Commercial Interruptible Reverse Flow service at the Moffat Exit Point. Ofgem recently consulted on the necessary licence changes to enable National Grid NTS to treat Moffat as an NTS Entry Point for this specific purpose and in parallel, we have been working towards the development of the associated commercial terms of the Commercial Interruptible Reverse Flow service at Moffat.

Currently Users wishing to physically offtake Gas from the National Transmission System (NTS) at Moffat Interconnector must accede to a CSEP Ancillary Agreement. The CSEP Ancillary Agreement between National Grid NTS and CSEP Users at Moffat details specific requirements of Users at Moffat, primarily for the purposes of energy allocations and nominations, exit capacity booking whilst also ensuring National Grid NTS receive Exit Flow Profiles that reflect the physical real time offtake of gas. The CSEP Ancillary Agreement is part of Code for the purposes of enabling such Agreement to be modified.

Additionally a Connected System Agreement ("CSA") is in place between National Grid NTS and Gas Link that contains certain Moffat Network Exit Provisions which affect existing CSEP Users at Moffat.

In order to introduce the Commercial Interruptible Reverse Flow service at Moffat, changes are required to both the CSEP Ancillary Agreement and the Moffat Network Exit Provisions contained in the CSA.

Further details of the reason for this are given in Section 2.

Solution

It is proposed that the current Moffat CSEP Ancillary Agreement is amended and restated to the Moffat Ancillary Agreement (MAA) via this UNC Modification Proposal. As such, the proposed MAA will be effectively a combined Exit and Entry Ancillary agreement allowing signatories to utilise the Entry and/or Exit services at the Moffat Interconnector.

In addition changes are needed to the CSA to recognise that although there is no physical entry flow the CSA will include Network Entry Provisions to facilitate the Commercial Interruptible Reverse Flow service.

Further details of these proposed changes are given in Section 3.

In order to give effect to these changes National Grid NTS is proposing this modification proposal and the rationale for this is explained in more detail in Section 3.

Impacts & Costs

- Implementation and ongoing costs are anticipated to be minimal
- No system impacts have been identified and it is anticipated that current Gemini functionality allows for Moffat to be included as a System Entry Point for the purposes of both Entry Energy nominations and allocations and Interruptible NTS Entry Capacity release.
- No system impacts have been identified
- If the agent(s) were to fail to provide allocations, or the allocations did not conform with UNC and Ancillary Agreement requirements then the default allocation rules would apply to both entry and exit Moffat Users, as detailed under TPD UNC E3.2.7. Whilst this is not a change to the current UNC rules, it is important to appreciate that the introduction of a Commercial Interruptible Reverse Flow service may impact upon the default allocations Exit Users may receive at Moffat. National Grid NTS consider that, whilst the impact of default allocations on Moffat Users is potentially higher under this modification proposal, the risk of default allocations being applied is small.
- The introduction of a Commercial Interruptible Reverse Flow service at Moffat potentially impacts on the GB energy market by introducing greater market liquidity and access to the Northern Ireland and Eire markets.

Implementation

National Grid NTS recognise that the implementation of this UNC Modification proposal is not possible until agreement to the CSA proposed changes is received from Gaslink. National Grid NTS therefore propose that the implementation of this proposal should be as soon as possible post agreement from Gaslink to the proposed changes to the CSA.

The Case for Change

National Grid NTS signalled its intent to introduce a reverse flow service at all Interconnectors in 2009 primarily to further integrate markets, and facilitate greater market liquidity, further detail may be found in section 2.

Recommendations

National Grid NTS recommends that this proposal proceeds to the Transmission workstream for further discussion.

2 Why Change?

Currently GB has three Gas interconnector points, namely Bacton IUK, BBL and Moffat. IUK operates, between Bacton and Zeebrugge, a Bi-directional service that has the capability to physically flow gas both into and out of the UK. BBL has recently introduced a commercial exit service providing for commercial flows out of the UK (to the Netherlands) in addition to the physical capability to flow into the UK at Bacton, whilst Moffat currently operates a physical service out of the GB to Northern Ireland and Eire only.

National Grid NTS signalled its intent to introduce a reverse flow service at all Interconnectors in 2009 primarily to further integrate markets and facilitate greater market liquidity. Since then discussions have been ongoing with Gaslink and Ofgem regarding the introduction of a Commercial Interruptible Reverse Flow service at the Moffat Exit Point. Ofgem recently consulted on the necessary licence changes to enable National Grid NTS to treat Moffat as an NTS Entry Point for this specific purpose and in parallel, we have been working towards the development of the associated commercial terms of the Commercial Interruptible Reverse Flow service at Moffat.

Currently Users wishing to physically offtake Gas from the National Transmission System (NTS) at Moffat Interconnector must accede to a CSEP Ancillary Agreement. The CSEP Ancillary Agreement between National Grid NTS and CSEP Users at Moffat and details specific requirements of Users at Moffat, primarily for the purposes of energy allocations and nominations, exit capacity booking whilst also ensuring National Grid NTS receive Exit Flow Profiles that reflect the physical real time offtake of gas. The CSEP Ancillary Agreement is part of Code for the purposes of enabling such Agreement to be modified.

Additionally a CSA is in place between National Grid NTS and Gas Link that contains certain Moffat Network Exit Provisions which affect existing CSEP Users at Moffat.

In order to introduce the Commercial Interruptible Reverse Flow service at Moffat, changes are required to both the CSEP Ancillary Agreement and the Moffat Network Exit Provisions contained in the CSA.

Currently the CSEP Ancillary Agreement is limited to exit provisions. Additional provisions will be required due to the high level of potential interaction between the exit physical flow, exit energy nominations, exit energy allocations and the entry energy nominations and entry energy allocations that may result from the introduction of a Commercial Interruptible Reverse Flow service at Moffat. Relevant entry Users will be required to be parties to this agreement. Therefore National Grid NTS proposes to combine Moffat exit and entry requirements into a single agreement through the amendment and restatement of the existing Moffat CSEP Ancillary Agreement to the Moffat Ancillary Agreement. This revised version will in effect replace the existing version.

Changes to the Moffat Network Exit Provisions contained in the CSA are required because these provisions will be affected by the introduction of entry related provisions. Discussions with Gaslink to agree the changes required to the CSA are at an advanced stage.

3 Solution

1. Moffat CSEP Ancillary Agreement changes.

It is proposed that the current Moffat CSEP Ancillary Agreement is amended and restated to become the Moffat Ancillary Agreement (MAA). As such, the proposed MAA will be effectively a combined Exit and Entry Ancillary agreement allowing signatories that are CSEP Users and SEP Users to utilise the Entry and/or Exit services at the Moffat Interconnector.

The key proposed amendments to the MAA are as follows:

- Provisions, for the purposes of UNC, to designate Moffat as a System Entry Point (SEP) and to required SEP Users to be a party to it.
- Provisions, for the purposes of the Moffat Ancillary Agreement (MAA), to refer to signatories of the MAA as Moffat Users and further permit Moffat Users to declare whether they wish to become a CSEP User, SEP User or both at Moffat.
- Provisions, for the purposes of UNC, to allow SEP Users to make Entry Nominations and receive Entry Energy allocations at Moffat SEP
- Provisions, for the purposes of UNC, to ensure any exit energy allocations at Moffat CSEP are at least equal to or greater than the aggregate allocations at Moffat SEP for the same Gas Day.
- Provisions, for the purposes of UNC, to ensure SEP Users only hold Daily Interruptible NTS Entry Capacity as defined under TPD B2.5

In addition to the key changes detailed above, National Grid NTS are also taking the opportunity to make some further minor amendments including, but not limited to;

- UNC references have been updated to reflect the current UNC
- Name changes from Transco plc to National Grid Gas plc
- Removal of references to the RTPA provisions which are no longer required

For clarity, the proposed changes will be limited to those needed to facilitate a Commercial Interruptible Reverse Flow service at Moffat and not to introduce any additional changes to the existing exit provisions.

2. CSA Changes.

The key proposed changes to the Network Exit Provisions contained in the CSA are as follows:

- 1) Introduction of Network Exit Provisions to identify a System Entry Point but recognise that no physical entry flow will be permitted.
- 2) Changes to enable Gaslink to move from providing a single daily end of day physical meter read (which due to the absence of a reverse mechanism always matches the combined gross commercial allocations) to providing three figures, namely:
 - a) gross commercial exit end of day quantities
 - b) gross commercial entry end of day quantity
 - c) net physical end of day quantity measured by the meters (equal to (a) – (b) above)

In addition to the key changes detailed above, National Grid NTS are also taking the opportunity to make some further minor amendments including, but not limited to;

- a) definition changes relating to entry provisions
- b) name changes from Transco plc to National Grid Gas plc
- c) UNC references have been updated to reflect the current UNC
- d) removal of references to the RTPA provisions which are no longer required

The details of all the Changes proposed in 3.1 and 3.2 above will be provided as suggested text. When the changes to the Network Exit Provisions in the CSA have been agreed with Gaslink these will be produced as final legal text for the purposes of this UNC Modification and implemented for the purposes of Code by this Modification. Any changes to the MAA are required as result of changes to CSA these will be treated in the same way.

It is noted that National Grid NTS will be able to provide the entire revised MAA but is unable to disclose the entire revised CSA to all Users due to confidentiality provisions in the CSA. However the revised CSA will be disclosed to existing CSEP Users at Moffat or those Users that intend to become a CSEP User at Moffat, who request it.

3. Modification Proposal requirements.

CSEP Ancillary Agreement and CSEP Users

Given the potential effects on CSEP Users of the changes, National Grid NTS believes that a UNC Modification Proposal is the correct vehicle for introducing them.

Please note however, that the general rule in TPD, Section V1.1.4 (see below) is that an Ancillary Agreement may only be amended by agreement of the Transporter and the User(s) that are parties, and cannot be modified under the Modification Rules.

1.1.4 An Ancillary Agreement may be amended by agreement of the Transporter and the User(s) party to that Agreement and not otherwise; and accordingly an Ancillary Agreement shall not be subject to modification pursuant to the Modification Rules (but without prejudice to any modification of any provisions of the Code which apply to or are incorporated into such Agreement).

However, UNC TPD J6.6.2 (see below) states that a CSEP Ancillary Agreement is part of the Code to enable it to be modified under the Modification Rules.

6.6.2 A CSEP Ancillary Agreement shall be deemed to be a part of the Code for the purposes of enabling such Agreement to be modified pursuant to the Modification Rules.

This is supported by Clause 1.3 (see below) of the existing Moffat CSEP Ancillary Agreement which states that it may be modified pursuant to the Modification Rules:

1.3 This Agreement is a Network Code Ancillary Agreement for the purposes of Section V1.1, and (in accordance with Section J6.6.2) may be modified pursuant to the Modification Rules.”

As such it is the view of National Grid NTS that an amendment to the CSEP Ancillary Agreement is possible by this Modification Proposal.

0352
Work Group Report
16 December 2010

Version 1.0

Page 7 of 17

© 2010 all rights reserved

SEP Users becoming party to the MAA

In order to enable the operation of a Commercial Interruptible Reverse Flow service at Moffat, System Entry Point (SEP) Users will be required to become party to the Moffat Ancillary Agreement, Section V1.1.6 (see below) provides for this.

1.1.6 Any Ancillary Agreement applying in respect of a System Entry Point or Connected System Exit Point shall provide (in such manner as the Transporter shall reasonably determine) for any User who may (or intends to) deliver gas to or (as the case may be) offtake gas from the Total System at that point to accede to such agreement; and the Transporter may refuse to allow a User who has not acceded or agreed to accede to such an Agreement to deliver or offtake gas or to hold System Capacity or to make a Nomination at or in respect of the relevant System Point."

UNC TPD J6.4 states:

6.4 Amendment of Network Exit Provisions

[1]6.4.1 The Transporter will not agree with the Connected System Operator to amend any provision of CSEP Network Exit Provisions which governs or otherwise is directly relevant to the arrangements between the Transporter and Users pursuant to the Code except in accordance with Section J4.3.6."

These CSEP Network Exit Provisions are contained in the CSA between NGG and Gas Link.

UNC TPD J 4.3.6 states that the Transporter will not agree to a modification of the Network Exit Provisions (other than increases to the Permitted Ranges) applicable to a System Exit Point except:

- (i) with the consent in writing of all Users who are the Registered Users or CSEP Users (as the case may be) at the date when such amendment is to take effect at the System Exit Point; or
- (ii) in accordance with paragraph 4.3.7.

Where UNC TPD J4.3.7 states that where the Transporter and the relevant consumer or Connected System Operator (as the case may be) have agreed (subject to a Code Modification) upon an amendment to any such Network Exit Provisions, such Network Exit Provisions may be amended for the purposes of the Code by way of Code Modification pursuant to the Modification Rules."

Therefore, before changes to the Network Exit Provisions in the CSA may be implemented, either the consent of all the specific Moffat CSEP Users must be obtained or a UNC Modification is required.

National Grid NTS believes that a UNC Modification is the most appropriate means of achieving this, ensuring transparency. National Grid NTS believes that it is imperative for Users to be fully aware of and have adequate opportunity to understand the changes this proposal introduces prior to final agreement of the changes to the CSA from Gaslink.

4 Relevant Objectives

National Grid NTS believe that this Modification proposal will better facilitate the achievement of **Relevant Objectives b and d.**

| Proposer's view of the benefits of 0352 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. | See explanation below |
| c) Efficient discharge of the licensee's obligations. | None |
| 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 explanation 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 |

Standard Special Condition A11. Network Code and Uniform Network Code

Standard Special Condition A11 1 b) Coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or
- (ii) (ii) the pipe-line system of one or more other relevant gas transporters.
Efficient and economic operation of the pipe-line system.

The introduction of a commercial Interruptible Reverse Flow service at Moffat Interconnector allows for greater co-ordination and access to both the Northern Ireland and Eire pipe-line system(s) and the National Transmission System. By facilitating energy nominations and allocations into the NTS from Ireland, access to the NTS is provided that would otherwise be absent. This may allow for greater co-ordination between the National Transmission System and the Northern Ireland and Eire pipe-line system(s) system and the respective Users of the pipe-line systems . Additionally by facilitating commercial flows into the NTS, the potential for commercial flows (in addition to physical flows) from the NTS into the BGE pipeline system is also provided for through this modification proposal, enabling diversity and choice to Users of both pipe-line systems and therefore promotes efficiency and economy through User choice.

Standard Special Condition A11 1 d) Securing of effective competition:

0352
Work Group Report
16 December 2010

Version 1.0

Page 9 of 17

© 2010 all rights reserved

- (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.

National Grid NTS believe this proposal provides for greater competition between relevant Shippers by potentially providing greater access to the GB market. By providing for energy nominations and allocations into the NTS from Moffat interconnector, and as a result potentially allows greater scope for nominations and allocations from the NTS into Northern Ireland and Eire, which may increase effective competition between relevant Shippers.

5 Impacts and Costs

Costs

| |
|--|
| Indicative industry costs – User Pays |
| Classification of the Proposal as User Pays or not and justification for classification |
| None identified |
| Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification |
| |
| Proposed charge(s) for application of Users Pays charges to Shippers |
| |
| Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve |
| |

Impacts

| Impact on Transporters' Systems and Process | |
|---|--|
| Transporters' System/Process | Potential impact |
| UK Link | <ul style="list-style-type: none"> • None |
| Operational Processes | <ul style="list-style-type: none"> • Something about entry allocations? |
| User Pays implications | <ul style="list-style-type: none"> • None |

| Impact on Users | |
|---|--|
| Area of Users' business | Potential impact |
| Administrative and operational | <ul style="list-style-type: none"> • Views are welcomed from the industry |
| Development, capital and operating costs | <ul style="list-style-type: none"> • Views are welcomed from the industry |
| Contractual risks | <ul style="list-style-type: none"> • The introduction of a Commercial Interruptible Reverse Flow service at Moffat may impact upon the default allocations CSEP Exit Users at Moffat receive. As such this may also impact Users contractual obligations. |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> • Views are welcomed from the industry |

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.com/networkcodearchive/551-575/>

| Impact on Transporters | |
|---|------------------|
| Area of Transporters' business | Potential impact |
| System operation | • None |
| Development, capital and operating costs | • None |
| Recovery of costs | • None |
| Price regulation | • None |
| Contractual risks | • None |
| 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 |
| | None |
| | |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|---|
| Related Document | Potential impact |
| Network Entry Agreement (TPD I1.3) | The CSA will become a combined NEXA and NEA for Moffat |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | Impacted due to the inclusion of Entry provisions into the amended and restated Moffat CSEP Ancillary Agreement |
| Storage Connection Agreement (TPD R1.3.1) | None |
| UK Link Manual (TPD U1.4) | None |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------|
| Network Code Operations Reporting Manual (TPD V12) | None |
| Network Code Validation Rules (TPD V12) | None |
| ECQ Methodology (TPD V12) | None |
| Measurement Error Notification Guidelines (TPD V12) | None |
| Energy Balancing Credit Rules (TPD X2.1) | None |
| Uniform Network Code Standards of Service (Various) | None |

| Impact on Core Industry Documents and other documents | |
|---|---|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | None |
| Gas Transporter Licence | Moffat is, subject to a section 23 notice consultation, to be classed as a System Entry Point with a zero baseline in the Gas Transporter Licence in respect of the NTS |
| Transportation Pricing Methodology Statement | None |

| Other Impacts | |
|-------------------------------|---|
| Item impacted | Potential impact |
| Security of Supply | The introduction of a Commercial Interruptible Reverse Flow service at Moffat interconnector potentially enhances security of supply by increasing diversity of supply into the NTS. |
| Operation of the Total System | The operation of the system is not thought to be impacted by this modification proposal. |
| Industry fragmentation | Industry Fragmentation is potentially reduced through the introduction of the reverse service by providing wider access to Markets otherwise not accessible in the absence of this modification proposal. |

| | |
|---|--|
| <p>Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties</p> | <p>Consumers – Northern Ireland and Eire consumers are potentially impacted by the introduction of the reverse service at Moffat as such a service could result in less physical delivery of Gas into Ireland, however this impact is expected to be managed by the Interconnector pipeline operator</p> <p>Connected System Operators – Gaslink are the Connected System Operator and need to agree to the introduction of a commercial counter flow service at Moffat. As such an amended Connected System Agreement (CSA) has been drafted and the relevant amendments have been summarised and included in this proposal for information purposes.</p> |
|---|--|

6 Implentation

The Work Group Chairman should enter here, using information gained from the Proposer, the Transmission Company/Transporter and from any other Work Group attendees, the likely implementation timetable.

Insert subheading here

Insert body copy here

- Insert Bullet here
- 1 Insert number paragraph here

7 The Case for Change

Advantages

- Insert Bullet here

Disadvantages

- Insert Bullet here

8 Recommendation



The Work Group invites the Panel to:

- AGREE that Modification Proposal 0352 be submitted for consultation; and
- AGREE that Code Administrators should issue 0352 Draft Modification Report for consultation with a close-out of dd month 2011 and submit results to the Panel to consider at its meeting on[Panel meeting date].

Insert heading here

[Insert relevant text or delete box]