

Stage 02: Workgroup Report

0407:

Standardisation of notice periods for offtake rate changes for all National Grid NTS Exit Users

At what stage is this document in the process?



This modification aims to standardise the contractual clauses which govern the different categories of User defined in the Offtake Arrangement Document (OAD), which vary offtake rates with National Grid NTS.



The Workgroup recommends that this modification should now proceed to Consultation



High Impact: - National Grid NTS, Gas Distribution Networks



Medium Impact:



Low Impact: -

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on **XX
xxxx 2012**, on whether Modification 0407 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



3 Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

This modification seeks to facilitate standard treatment for all Users with regard to the treatment of notice periods for offtake rate changes for all National Grid NTS Exit Users.

Currently, the aggregate NTS/LDZ offtake level is only allowed to vary from planned hourly offtake rates by more than 5% if it provides a minimum of 2 hours' notice. This requirement subsequently necessitates the Gas Distribution Network (GDN) having to utilise its storage capability to accommodate customer's rate of offtake change, to remain within the LDZ 2 hour 5% rule tolerance. Directly connected NTS Users do not have to comply with this rule.

GDNs have embedded very large daily metered sites (VLDMCs) which are not governed by this rule (Transco legacy NEXAs). The nature of embedded VLDMCs (e.g. power stations) operations, will typically dictate that they need to change their rates of offtake with less than 2 hours' notice and by more than 5%. For example any power station reacting to electricity demands/requirements may be unable to provide 2 hours' notice, and would in all likelihood seek to alter its offtake rate by more than 5%.

The two tier set of rules governing LDZs and NTS Direct Connects in this area should be made consistent by removing the current 2 hour 5% rule which exists in Section I of the OAD and applies to GDNs.

Solution

Wales & West Utilities (WWU) propose that the 2 hour 5% rule be removed from the OAD, and that all Transporters and Users should be governed by a set of consistent OAD, UNC and any NExA clauses pertaining to offtake rate changes at the NTS.

Impacts and Costs

Some Workgroup members do not anticipate any additional costs to any User in respect of having to reconfigure networks to cope with the removal of the 2 hour 5% rule and that is likely to be less costly for GDNs to comply with the change, than to continue with the existing regime.

Some Workgroup members consider that a significant impact of the **existing** rules is that any **new** embedded VLDMC in a GDN may be required to comply with the 2 hour 5% rule (this rule would necessarily form part of a new NExA arrangement). This is likely to preclude a VLDMC from connecting to the GDN, as it would be unable to comply with this term. The impact of this could be that the proposed VLDMC could then seek to connect directly to the National Grid Transmission system, where it would **not** be governed by the 2 hour 5% rule.

Implementation

While no implementation timescale is proposed, implementation is sought as soon as possible.

The Case for Change

Some Workgroup members consider it is necessary to change the Offtake Arrangements Document (OAD) to ensure all Users have equal rights and obligations for NTS rate changes/notice periods. The current rules provide for a discriminatory two tier approach for certain Users which could force unnecessary costs and operational behaviour on GDNs or (new) embedded VLDMCs, so as to comply with the existing OAD contractual arrangements.

VLDMCs may be obliged to connect within the location that suits their business needs. Some Workgroup members consider it is discriminatory that a Shipper (of a VLDMC) connected to an LDZ, is unable to compete on an equal contractual footing with a Shipper (of a VLDMC) connected to the NTS. The operational disciplines required to adhere to the 2 hour 5% rule could significantly affect its output and performance. However, some Workgroup members disagreed with this view as NTS connected VLDMC were required to comply with the terms of their site specific NExA.

Recommendations

The Workgroup considers that the modification is sufficiently developed and should now proceed to consultation.

2 Why Change?

The current OAD clauses relating to aspects of amending the rate of change of offtake within an LDZ have been subject to a number of debates and analysis within the Offtake Workgroup.

Some Workgroup members consider that whilst this rule remains, any new large customer connecting to the GDN network, (typically a very large daily metered site, VLDMC) would be restricted to rate changes which keep the whole LDZ rate change within the prescribed 5% rate change with a minimum of 2 hours' notice. This rule may constrain the operations of some embedded VLDMCs whose commercial needs will necessarily require them to ramp up or down their offtake of gas considerably in excess of 5% with less than 2 hours' notice. This constraint does not exist for similar size connectees directly linked to the NTS and this ability to alter offtake rate needs to be equalised for all Users.

3 Solution

Remove OAD Section I 2.3.3

Remove the 2 hour 5% contractual term from the Offtake Arrangements Document. This will provide for a level operational and commercial field for all Users and remove any discriminatory approach for certain classification of Users, with respect to the rate of offtake changes allowed.

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	YES
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.	YES
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.	YES
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 (a) Efficient and economic operation of the pipe-line system

GDNs are currently required to operate storage ensure they comply with the LDZ 2 hour 5% rule. This is not an efficient or economic operation of the GDN pipeline system.

Achievement of relevant objective (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

The existing rules require GDNs to utilise storage to accommodate the 2 hour 5% rule. Any investment for GDN storage to satisfy this rule is not an efficient or economic use of any pipe-line system. However, one member was concerned that should the rule be removed, it would put the total system at risk as the rule is used as a design parameter to protect the system during periods of high demand, therefore this modification does not further this relevant objective.

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Achievement of relevant objective (d) Securing of effective competition

(i) between relevant Shippers

A Shipper with an embedded VLDMC in an LDZ is currently obliged to operate to a more onerous set of rules than a Shipper with a Direct Connect connected to the NTS. Removing this clause from the OAD would therefore ensure effective competition between Shippers operating in this area. One member disagreed with this view as it was possible for individual GDNs to allow connected VLDMCs to operate in the same way as NTS direct connects should the GDN provide their own reinforcement and/or storage capability.

5 Impacts and Costs

Consideration of Wider Industry Impacts

None identified.

Costs

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
Not User Pays. No user pays service is proposed and implementation does not require a change to central systems.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
N/A	
Proposed charge(s) for application of Users Pays charges to Shippers	
N/A	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
N/A	

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"> The consistent approach for all Users should make operational processes consistent for adherence to remaining UNC/OAD/NEXA terms.
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"> One set of administrative and operational rules for NTS to manage.



Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> GDNs will have reduced costs in this area due to the reduced requirement for storage utilisation.
Contractual risks	<ul style="list-style-type: none"> Shippers with new embedded VLDMCs will have a reduced contractual risk as the existing OAD 2 hour 5% rule will not form part of any new NExA.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Reduced by absence of 2 hour 5% rule for GDNs

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 Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> Allows GDNs to operate efficiently and economically
Development, capital and operating costs	<ul style="list-style-type: none"> GDNs will have reduced costs in this area due to the reduced requirement for storage utilisation. Potentially increased costs for NTS as they may need to provide additional system reinforcement
Recovery of costs	<ul style="list-style-type: none"> No recovery of costs is anticipated
Price regulation	<ul style="list-style-type: none"> No impact on price regulation, any impact would be a benefit through reduced GDN requirements for storage
Contractual risks	<ul style="list-style-type: none"> Reduced: GDN contractual requirements aligned with NExAs
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> No risk of discriminatory approach being assessed Potentially increased risk for NTS as it would impact their system design parameters
Standards of service	<ul style="list-style-type: none"> No impact

Impact on Code Administration	
Area of Code Administration	Potential impact

Impact on Code Administration	
Modification Rules	• Medium
UNC Committees	•
General administration	•

Impact on Code	
Code section	Potential impact
OAD Section I	• Medium

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	• Alignment of existing and potential new (GDN) NExAs.
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	• Alignment of existing and potential new (GDN) SCAs
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
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	• None

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> • None
Operation of the Total System	<ul style="list-style-type: none"> • Operation of the Total system should recognise that different Users different offtake rate change needs. The net benefit of this proposal is that the most economic approach will be provided in regards of operating the total system.
Industry fragmentation	<ul style="list-style-type: none"> • None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> • None

6 Implementation

The Workgroup have not provided a timescale for implementation of this modification (as referred to in 6.2.1 of the Modification Rules) as it is not required for the purposes of enabling the Authority or any persons, including but not limited to Users, Transporters, Third Party Participants and Non Code Parties to be aware of the potential benefits or constraints associated with such timing.

Implementation could take place as soon as a direction to implement is received from the Authority.

7 The Case for Change

No additional advantages or disadvantages to those identified above.

8 Legal Text

The following draft Legal Text has been provided by Wales & West Utilities.

OAD Section I: NTS Operational Flows

~~2.3.3 Where, pursuant to one or more revised Offtake Profile Notice(s) submitted by a DNO in relation to the Offtake(s) serving one LDZ, there is at any time (TRO) a change in the aggregate rate of offtake:~~

~~(a) the time (TOPN) at which such revised Offtake Profile Notice(s) are submitted shall not be less than two hours before time TRO; and~~

~~(b) the aggregate flow rate change, for any time (TRO) of the Day, pursuant to revised Offtake Profile Notices submitted within any one hour (HOPN) of the clock, shall not exceed 5%.~~

~~2.3.4 For the purposes of paragraph 2.3.3(b), in relation to any hour (HOPN), the aggregate flow rate change at any time (TRO) is the magnitude of difference between:~~

~~(a) the aggregate rate of offtake at time TRO pursuant to the Offtake Profile Notices prevailing at the start of hour HOPN; and~~

~~(b) the aggregate rate of offtake at time TRO pursuant to the Offtake Profile Notices prevailing (pursuant to any revisions thereof within hour HOPN) at the end of hour HOPN; expressed as a percentage of the aggregate rate of offtake at time TRO pursuant to the Offtake Profile Notices prevailing at the start of hour HOPN.~~

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.