

Development of a Uniform Network Code ("UNC")

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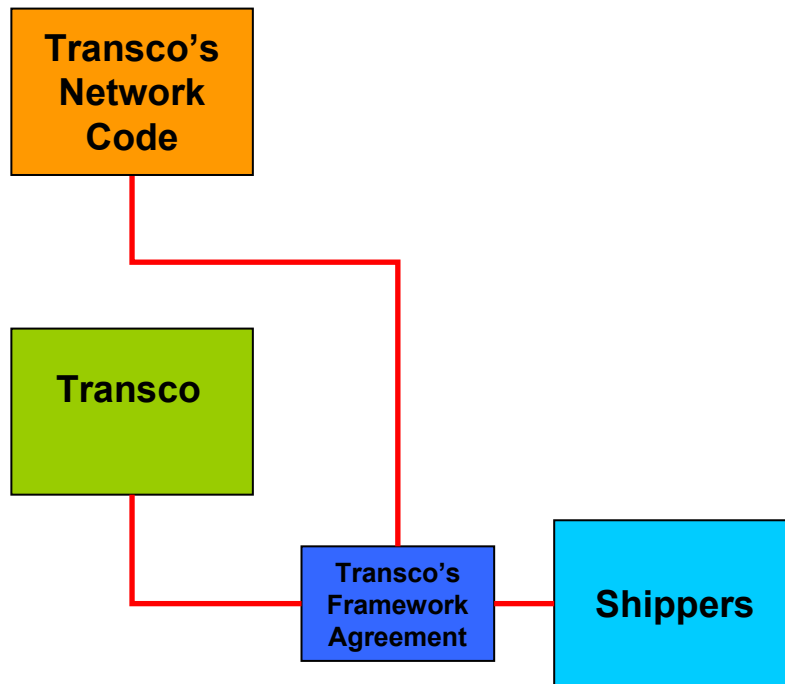
Regulatory Architecture Workgroup

27 January 2004

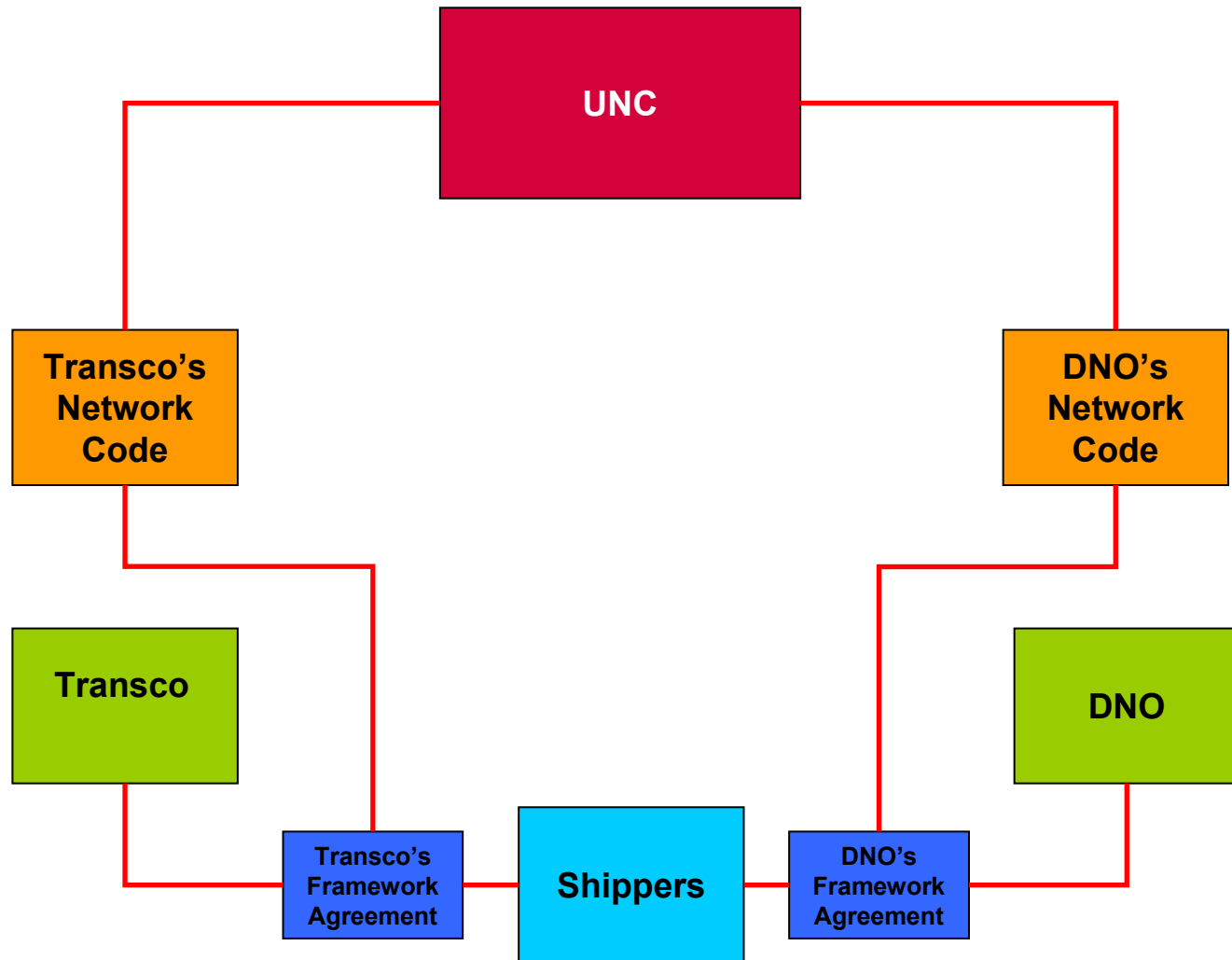
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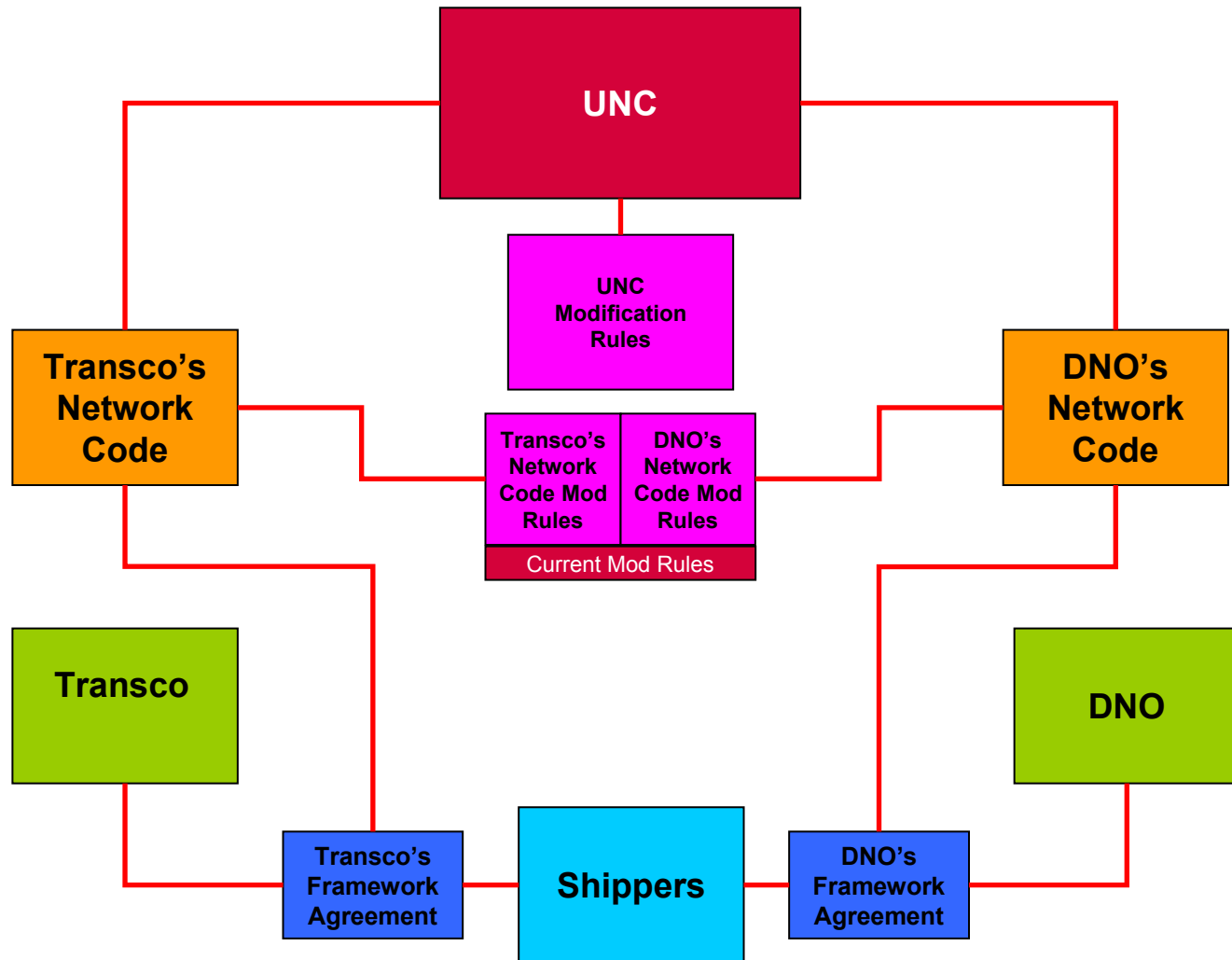
Contract Model - Current



Contract Model - Proposed



Contract Model - Proposed including Governance



Development Principles

- It is proposed that the UNC development process should reflect the following principles:
 - Change to commercial arrangements and business processes that interface with shippers be kept to an absolute minimum
 - Transco's Network Code be used the starting point for the development process
 - Change be driven by the need to establish a UNC that can accommodate multiple transporters
 - The Terms of Reference be established to prevent scope creep
 - **Test: in the absence of Blackwater would this be an issue?**

High Level Assumptions

- A DN will contain whole LDZs
- Existing Network Code fundamental principles will continue to apply
 - No change to the energy balancing arrangements
 - there will be one NBP
 - there will be a single energy clearing arrangement
 - Gas transfers between UNC GTs will be risk free for the shipper
 - Commercial arrangements will associate with the system exit point
 - the physical route will not be referenced
 - The invoice items currently in use will not change

Categorizing Change

- Category 1
 - **Generic / Technical**

This is essentially a “find and replace” exercise to be undertaken using the drafting rules detailed in the “UNC Action List” Document.
- Category 2
 - These are **changes to existing** provision that require modification to allow multiple licenced gas transporters to be party to the UNC.
- Category 3
 - These are **new** provisions required to allow multiple licenced gas transporters to be party to the UNC
- Identified by section

Section A

System Classification

- This section defines various points on the system required define the transportation services contained in the Code.
- Issues Count (Category 2 and 3): 1
 - consider definition of the system in light of multi-transporter arrangement

Section B

System Use and Capacity

- This section defines the terms by which Users may apply for, hold and trade capacity in the System at certain system points.
- Rules apply principally to NTS activities
 - Entry, auctions, buy-backs, overruns
 - Exit
 - Trading
- LDZ capacity also defined and will become a DNO responsibility
- Category 2 and 3: 1
 - Amend termination provision to accommodate a “DNO only” termination

Section C

Nominations

- This section outlines the rule by which shippers nominate gas on to and off the system.
- Transporter obligations rest with NTS
 - Exception provision of CV data
 - Managed by establishing data flows between NTS and DNO
 - Activities relating to publication of CV information captured in Offtake Code (“OC”)
- Category 2 and 3: none

Section D

Operational Balancing & Trading Arrangements

- This section sets out steps Transco make take to ensure that the system remains balanced.
- The section also defines the gas trading arrangements and the system on which trading occurs.
- Operational balancing trades are undertaken by the NTS
- Category 2 and 3: none

Section E

Daily Quantities, Imbalance & Reconciliation

- Describes the rules for establishing shippers' daily balance positions and determining reconciliation quantities
- Majority of obligations and activities fall on NTS, although meter point reconciliation will be a DNO responsibility.
- Category 2 and 3: 3
 - Underline that a shipper's imbalance in the UNC relates to the whole system
 - Underline that it will be the DNO's obligation to provide LDZ input quantity information to the NTS (Obligation will be reinforced in OC)
 - Add clarity that commodity reconciliations will credit or debit against both tiers of the system

Section F

System Clearing, Balancing Charges & Neutrality

- This section sets out the process for the clearing energy imbalances and reconciliations and sets out the basis for the calculation and payment of Daily Imbalance, Scheduling, Balancing Neutrality and Reconciliation Neutrality charges
- All obligations in this section relate to the NTS
- Category 2 and 3: none

Section G

Supply Points

- This section describes the processes relating to the registering supply points and the management of interruption
- The supply point definition relates to both tiers of the system and therefore the obligations will fall on the relevant transporter
 - Relevant means the DNO operating the part of the system to which the supply point is attached
- Category 2 and 3: 4
 - 1 relating to SOLR provisions
 - 3 relating to interruption rules

Section H

Demand Estimation & Demand Forecasting

- This section defines the processes associated with NDM Demand Estimation.
 - The output is used determining Supply Point Capacity, Exit Capacity and Annual Quantities.
- The section also places obligations on Transco to provide daily demand quantities
 - The LDZ demand figures are used to establish NDM Nominations and Allocations
- These are DNO responsibilities will be delivered using contracted NGT resources
- Category 2 and 3: 1
 - Include provisions to ensure a common methodology and sampling is used to deliver these obligations

Section I

Entry Requirements

- This section sets out the rules by which gas may enter the system
- Most entry points are located on the NTS
 - Small number feed directly into the LDZ
- Section relates to both instances and, therefore, it is proposed to target the rules at the relevant transporter
- Category 2 and 3: 1
 - Include an explicit statement that gas transfers between UNC transporters is risk-free

Section J

Exit Requirements

- This section sets out the rules by which gas may oftaken from the system
- Exit points exist on both tiers
 - obligations to rest with the relevant transporter
- Category 2 and 3: 1
 - Minor amendment failure to supply compensation amounts to the same in the network code and UNC

Section K

Operating Margins

- This section relates to role of the NTS regarding the use of Operating Margins
- These activities are carried out by the NTS
- Category 2 and 3: none

Section L

Maintenance & Operational Planning

- This section relates principally to the production, and the consequences of, the Maintenance Planning Schedule.
- Maintenance schedule published by NTS
- DNOs will be required to contribute to ensure maintenance is coordinated across the entire system
 - Cooperation will be underpinned through the OC
- Category 2 and 3: 1
 - Minor amend to confidentiality provision to allow transfer of information between DNOs

Section M

Supply Meter Points

- Describes the obligations associated with metering arrangements at a system exit point
- Assumption is that these will rest with the relevant meter owner
- Significant change anticipated between now and RGMA implementation
- Category 2 and 3: none at present

Section N

Shrinkage

- This section describes the treatment of shrinkage across the system and the role of the Shrinkage Manager
- Proposal is that each transporter will be responsible for shrinkage on its network
 - Each DNO will be required to be a Shrinkage Provider
- Category 2 and 3: 2
 - Amendments associated with the creation of multiple shrinkage providers

Section O

System Planning

- This section describes the obligations in place to ensure that Transco can fulfil its licence obligation to produce the Base Plan Assumptions and the Ten Year Statement.
- All transporters and shippers to be required to contribute to process
- DNO's obligated to contribute to be underpinned through the OC
- Category 2 and 3: none

Section P

Top-up

- This section describes Transco role as Top-up Manager to ensure there is sufficient gas in store to meet severe demand conditions
- Obligations rest with NTS
- Category 2 and 3: none

Section Q

Emergencies

- This section deals with the commercial consequences of an emergency being declared
- Placing of obligations
 - Supply side arrangements rest the NTS
 - Demand side and supply point related obligations will rest with the relevant transporter
- OC will establish:
 - Coordinating the preparation of emergency procedures and
 - Operational resolution of emergencies and pre-emergency situations
- Category 2 and 3: 1
 - Extension of the “consequences clause” to include to the diversion of resources between DNO

Section R

Storage

- Includes specific terms relating to the delivery and offtake of gas from storage facilities
- These provisions are specific to the operation of the NTS Storage connections and the operation of the rules in this section will rest with the NTS
- Category 2 and 3: none

Section S

Invoicing and Payment

- This section sets out the terms for the invoicing and payment of amounts payable by Users to Transco and by Transco to Users.
- The relationships are between all transporters and all shippers
- Category 2 and 3: 1
 - Redistribution of items on the invoice types to align charges with distribution & transmission activities

Section T

Dispute Resolution

- This section provides a framework for Transco and shippers to resolve disputes
- Assumption that transporters or shippers either individually or as a group could use the procedures described in this section
- Category 2 and 3: 1
 - Assign joint responsibility on transporters to provide a Disputes Secretary

Section U

UK Link

- This section describes the roles and responsibilities of Transco and Users regarding the provision and use of IT equipment and the applications used to operate the Network Code
- UK Link defined in the UK-Link Manual
- Responsibility for applications to be split between NTS and Agency shareholders, (as a group)
- Application split to be defined in UK-Link Manual
- Category 2 and 3: 1
 - Amendment to allow transporters to discharge these obligations via a third party

Section V

General

- **Contains a number of provisions to support the operation of other sections of the Code:**
 - User Admission Requirements
 - Code Credit Limits and Security
 - Discontinuance and Termination
 - Information and Confidentiality
 - User Agents and Transco as a User
 - Liabilities
 - Force Majeure
 - Network Code Committee and Sub Committees
 - Notices and Communications
 - Neutrality Auditor
 - Compensation
- **Significant number of changes require in the section**

Section V (continued)

General

- Category 2 and 3: 10
 - Reference to Framework Agreement not require in UNC
 - Provisions relating to information protection will increase with involvement of new entities
 - User agents – extend to cover use of agents by transporters
 - Committees – amend composition to reflect new transporters
 - Redefine credit definitions so that they relate to a transporter and not the Code
 - Modify provisions relating to application of credit sanctions
 - Modify the consequences of termination so that termination by network operator could occur

Section W

Interpretation

- This section provides definitions for generic terms not defined elsewhere in the Code
- Changes relate principally to the use of Transco in the definition although in some cases the definition will have to be rewritten to reflect the move to UNC.
- Category 2 and 3: 3
 - Some definition changes require more than just the replacement of Transco

Section X

Energy Balancing Credit Management

- Describes to rules associated with the management of the energy account
- Single NBP warrants a single clearing system
 - obligation to manage the account will rest with NTS
- In practice, the energy account will be managed by agency through the ASA
- Category 2 and 3: none

Section Z

Transco LNG Storage Facilities

- This section describes the rules by which Users may acquire storage services at Transco's LNG storage sites
- Section to remain largely unchanged to reflect arm's length relationship between Transco and Transco LNG
- References to Transco will be changed to Transco NTS
- Category 2 and 3: none

Transition Document

- Purpose
 - Ensure seamless move from Network Code to UNC
- Golden Rule
 - Arrangements (e.g. I.F.A), commitments (e.g. a capacity bid) and values (e.g. Supply point SOQ) agreed under the Network Code will apply under the UNC
 - Items affected captured in the “List of Changes” document

Process

- Category 1
 - Drafted into the UNC using generic drafting rules in the places described in the “List of Changes”
- Category 2 and 3
 - Business rules variations developed in workgroup and drafted into UNC following resolution
- Process not covered by Network Code modification process
- Ofgem consultation is proposed for July 2004, prior to final sale consent.
- Modification of existing Network Code to create “Short Form Network Code”

Governance

- Modification Rules to be amended to ensure DNOs are included in process
- Panel, Committees and Workstream composition amended to include new operators
- Transporter Forum may be required to ensure understanding of proposals by new entrants in short-term – substantial common interest in Agency arrangement
- Administration could reside with NTS, Agency or an external body.
 - Transco UK Distribution is least appropriate location
- Routing of proposals through process would be substantially the same as now