

UNC / Offtake Code – Composite Framework

DISG 17

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Introducing the Connectee Concept

The Composite Framework introduces the NTS connectee concept,

- Includes NTS direct connects (including storage and interconnectors) and DNs
- An Offtake Code provides common contractual relationship between NTS and all connectees
 - Connectees, as signatories to the Offtake Code, able to secure NTS exit rights and flexibility products
 - DN's book NTS exit capacity, consistent with meeting 1 in 20 obligations
 - Direct connects book NTS exit capacity consistent with their needs
 - All connectees able secure flexibility products
 - Shippers can book exit capacity and flexibility products on behalf of their NTS direct connect customers
 - Consistent treatment addresses concerns over undue discrimination between DNs and NTS direct connects
 - UNC only allows shipper nominations for signatories the Offtake Code

Connectee exit capacity bookings

Connectees book exit capacity under the Offtake Code

- Firm exit capacity released at administered prices on an unconstrained basis > 3 years ahead
- Firm exit capacity released annually < 3 years ahead, day ahead and on-the-day on a constrained basis
 - Allocated via auctions with administered reserve prices
- Interruption capacity released day ahead on an unconstrained basis
 - Provides NTS right but not obligation to provide exit rights
 - Priced on a marginal cost basis (probably zero)
- Tenders for capacity buyback via turndown (interruption) contracts

Payment Obligations under Option 2A

Option 2A

- Connectees pay for exit capacity rights and flexibility products booked under the Offtake Code
- Connectees subject to overrun charges under the Offtake Code if exit capacity rights or flexibility rights are exceeded
- Connectees receive payment for capacity buybacks (interruption)
- DNs incentivised to book an efficient level of exit capacity consistent with their 1 in 20 obligations
- Issue relating to an exemption under Section 6A of the Gas Act

Payment Obligations under Option 2B

Option 2B

- Exit capacity rights and flexibility products assigned to shippers conveying gas on behalf of connectees
- Under the UNC, shippers pay NTS for the use of exit rights/flexibility products allocated to them by connectees, and pass these on to their customers
 - Consistent with current arrangements where shippers pay NTS exit charges
- Shippers subject to overrun charges under the UNC to the extent that assigned rights are exceeded
 - Shippers would charge these back to their customers, thus providing the incentive on connectees to book sufficient exit capacity to meet their needs
- Shippers receive payments for capacity buybacks (interruption) under the UNC
- DNs incentivised to book an efficient level of exit capacity consistent with

Benefits of an Offtake Code (1)

- Offtake arrangements contained in a single contractual document - the Offtake Code
 - Consistent treatment addresses concerns over undue discrimination between DNs and NTS direct connects
- NTS investment driven by market signals provided by long-term customers of the NTS (i.e. connectees)
 - Connectees have long term interest in exit capacity, hence providing greatest scope for signalling long-term investment needs
 - Especially the case for DNs due to shipper uncertainty over their longer-term portfolios; particularly on a geographic basis;
 - Perhaps less so with NTS direct connects with long-term shipper contracts

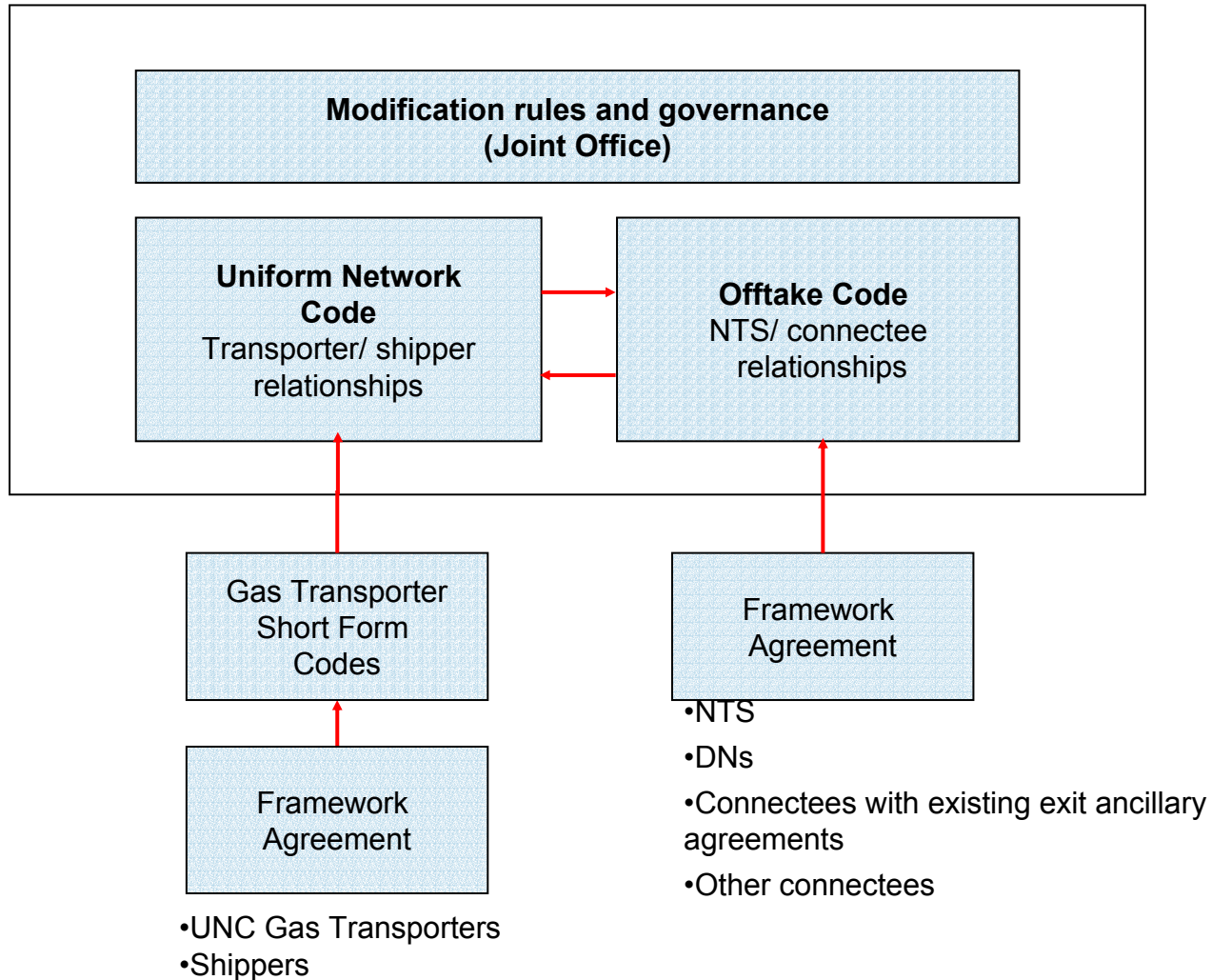
Benefits of an Offtake Code (2)

- Provides contractual clarity between UNC and Offtake Code
 - Offtake code defines contractual provisions between NTS and connectees
 - UNC defines contractual provisions between GTs and Shippers
- Avoids incorporating Offtake Code provisions in UNC
 - Combining the two codes would require significant reworking of the Network Code to define three way contractual provisions (Shipper-NTS, Shipper-DN, NTS-DN)
 - Would be costly, requiring significant industry time and resources
 - Clarity of purpose would be lost
 - Combined provisions would be unwieldy, and may hinder future development

Composite Framework

- Composite commercial framework, with common governance arrangements
 - The separate UNC and Offtake provisions are contained within the framework
 - Common mod rules and governance, administered by Joint Office
 - Allows future evolution of exit arrangements if necessary

Composite Framework



Overall

- Overall, the proposals
 - Allow all loads connected to the NTS to secure exit capacity products under a common set of contractual provisions
 - Hence limited scope for undue discrimination between connected parties
 - Provide investment signals from connected parties with a long-term interest in exit capacity (shippers can act as agents)
 - Maintain clarity of purpose between the UNC and Offtake Code
 - Avoid the wholesale reopening of the Network Code to define new contractual relationships
 - Provide common governance that will allow these arrangement to evolve