

Offtake Code Business Rules Version 2
SSE Comments
6th September 2004

Several parties, including SSE, submitted quite detailed comments on the original version of the Offtake Code Business rules dated January 2004. NGT has since presented several papers to CIWG on various parts of the Offtake Code. These papers and discussions have been extremely helpful in clarifying proposals and resolving some concerns. NGT has also recently issued a paper responding to each point raised by SSE, along with a revised version of the Offtake Code Business Rules. Whilst SSE believes a significant number of our concerns have been addressed, there are a few areas which still require further clarification or consideration.

We recognise that several sections such as offtake rights planning, operational flows and governance can not be finalised until a more detailed understanding of how the NTS offtake and interruption arrangements will work. We expect further consideration will be given to these sections as detailed proposals emerge. Furthermore, it is our understanding that Ofgem now intend that NTS offtake arrangements will also apply to directly connected customers and that such arrangements should be governed under the Offtake Code rather than the UNC. As it had previously been assumed that the Offtake Code would focus on arrangements between network, business rules will clearly have to be reviewed. We have not provided any further comment on either of these issues at this stage but would appreciate clarification on how and when this will be taken forward.

Introduction

SSE remains concerned that the current version of the Offtake Code assumes NTSCo will hold a licence obligation to prepare and revise the Offtake Code and that modification will only be made if following consultation with interested parties, NTSCo is supportive and Ofgem does not veto the proposal. We believe this would give NTSCo an inappropriate level of control over modifications. Modification should not be dependent on NTSCo support. Furthermore, SSE is not convinced that industry wide consultation is necessary in relation to the Offtake Code. We believe it would be appropriate to restrict consultation to those which are party to the Offtake Code. We recognise governance arrangements are still under discussion and expect these issues will be resolved as part of that process.

2. Connection Facilities

2.5 Compatibility of Connection Facilities

We welcome changes which now limit the right to disconnect the other party's system in the event of material breach to situations where safe operation of the system could be compromised. However we are still unclear how such a situation could arise. If NGT have a specific situation in mind, it would be helpful if they could share this with us. Perhaps consideration could then be given to incorporating suitable measures within the Emergency Procedures. We also continue to believe that as disconnection should only be used as a last resort, it would be prudent to include a specific duty requiring both parties to first co-operate and seek to resolve any breach. We note that similar provisions exist in section 3.5.

2.6 Modification of Connection Facilities

We remain concerned that this section could be interpreted as meaning that consent could be sought once the modification is made. For clarity we suggest the following words should be inserted so that the section reads "Should either party wish to modify the Connections Facilities, such that they **could** become incompatible with the other party's Connection Facilities, then the party requiring the modification shall **first** seek the written consent of the other party...". We believe this is a responsible and reasonable modification.

3. Safety and Emergencies

SSE continues to believe that further detail is required under this section in relation to detailed procedures and obligations requiring parties to co-operate in relation to development and testing of new procedures, contingency planning, charging arrangements, make safe and restoration processes. NGT has stated that NGT and DNs will collectively be responsible through a formal process for the development and maintenance of a single set of procedures to be followed in the case of a Local Gas Supply Emergency. We expect further detail to be included as this process proceeds.

Measurement

4.2 Several discussions have taken place at CIWG regarding metering arrangements between LDZs. NGT has given assurances that appropriate metering will be in place in time for a DN sale at points used frequently or where flows are greatest. At CIWG on 16th June it was noted that there are a number of points which are used very infrequently. Whilst there are no plans to install metering at such sites, if there was an emergency, NGT agreed flows could be significant. It was suggested obligations should exist, requiring DNCos to co-operate to determine flows and pass information on to all relevant parties. It was also noted that commercial incentives could differ following a DN sale. It shouldn't be assumed that parties will continue to flow gas as now. It was suggested that there should be an obligation on DNCos to ensure they don't use or flow gas at these points in a manner not previously envisaged, without first consulting affected parties and perhaps agreeing financial compensation. These issues haven't been picked up in the Offtake Code or under the Related Agreements section.

4.3 This requires all measurement equipment to be operated and maintained in accordance with applicable standards in force at the date of installation. Equipment installed at the date of the agreement that doesn't comply is to be made good by DNCo as and when it is modified or replaced. SSE previously suggested that NGT should ensure all equipment is compliant at the time of sale and provide appropriate warranties to new owners. NGT has responded suggesting it is appropriate that standards should be improved as and when equipment is modified or replaced. We assume there is no expectation that equipment should be upgraded or replaced before the end of its useful life. Clarification would be appreciated.

In a paper to CIWG on 28th July, NGT acknowledged that the Thermal Energy Regulations require CV and volume to be separately determined at each NTS/DN offtake but measurement systems at some offtake are not currently capable of measuring CV. At non-compliant offtakes an attribution process is used. CV is determined from CV measurements at another DN or the NTS. We believe this section should be clear that CV measurement may be subject to the attribution arrangements set out in section 6 and will be the responsibility of NGT. As NGT only intend doing this for an interim period we need to understand what the arrangements would be going forward. How will DNCos secure access to information to allow them to perform the necessary calculations?

4.9 Correction of Readings

The recent version of the Offtake Code continues to suggest that where a bias is found, even when within the permitted range, readings should be adjusted by applying half the bias. SSE continues to believe this is arbitrary and inappropriate. NGT assume the bias occurred as a result of a continuous drift in performance. We understand measurement uncertainty is a function of ambient temperature and other environmental variables and not necessarily connected with gas characteristics. It is not reasonable to assume a continuous drift. If a bias is found to be within the permitted range no action should be taken.

5 Telemetry

The second bullet under section 5 continues to state that NTSCo will have the capability to operate NTSCo owned block vales and under certain circumstances take override control. Similar provisions in sections 5.3 and 9.3 have been removed. We assume this section has been left in error. We continue to believe that in the interest of safety and security of supply it is essential that only one party has control over facilities and that control should lie with DNCo.

6 Calorific Values

Various papers have been submitted by NGT to CIWG on this issue. They have been extremely helpful in clarifying the current situation and issues going forward. Section 6.1 states that until 31 March 2007 NTSCo will determine daily CV on behalf of DNCo and where a DNCo is unable to determine CV at any offtake NTSCo shall apply available CV measurement data from any alternative place as defined in the Calculation of Thermal Energy Regulations. It is not clear what arrangements will exist beyond this date. This needs to be clarified.

7 Maintenance

SSE believes this section requires further consideration. At present Transco is required to establish and publish an NTS maintenance programme. As far as possible this is normally planned to tie in with maintenance plans for directly connected facilities. For such planned or programmed maintenance Transco is given relief from Network Code obligations to make gas available for a certain number of days without having to pay compensation. In practice, Transco is normally able to ensure gas is maintained.

However, we understand there have been occasions where supplies have been disrupted. We are keen to ensure that as far as possible the likelihood of this occurring does not increase following a DN sale.

SSE remains concerned that DNCos and NTS direct connects will have to fit maintenance around NTSCo and that NTSCo will have priority in relation to relief from Network Code obligations to make gas available, should they continue. We believe parties should have equal rights and that there should be an obligation on parties to co-operate when developing maintenance programmes. As far as possible network operators should be required to co-operate to ensure gas supplies are not disrupted.

It is not clear how relief from Network Code obligations to make gas available would work in a situation where there are a number of network operators. If this were to continue we believe relief should be allocated on an equitable basis, not on first come first served basis. Alternatively, we are unclear whether it is envisaged that, as at entry, NGTCo would be required to buy back capacity.

7.1 We continue to believe that Safe Control of Operations Procedures are currently NGT procedures. DNCos may wish to develop their own. Whilst we agree that it is essential that common procedures exist as far as they affect Shippers and other parties, internal risk management procedures such as the Safe Control of Operations Procedures are a matter for individual DNCos.

8 Offtake Rights Planning

As NGT suggest, this is subject to Ofgem decision on the Offtake and Interruptions RIAs. We clearly need to revisit this section once details are known.

9 Operational Flows (Includes Interruption)

As with 8 above this will need to be reviewed as detailed arrangements emerge.

10 Gas Quality

We understand Ofgem are currently considering gas liability provisions. This section will need to be reviewed once the outcome of this is known.

11 Charges

This section will need to be reviewed following more detailed development of the offtake and interruptions arrangements.

12 Liabilities and Disputes Resolution

We note there is still very little detail in this section. We would expect further detail to emerge in due course, particularly in relation to dispute resolution.

13 Daily Demand Forecasting

NGT has provided some clarification. It appears that terminology is consistent with the Network Code, which is helpful. However 13.3 seeks to provide additional information for operational purposes, over and above that provided in the Network Code, when requested by NTSCo or when demand changes by a defined amount. SSE asked for further clarification and we understand this has been provided through the information flows paper. SSE is still reviewing this paper. More detailed consideration will be given once offtake and interruptions arrangements are known.

14 Invoicing and Credit

As NGT point out, further consideration will be required when there is more clarity on charging arrangements.

15.1 Exchange of Information

There is still very little information in this section. It would appear that NTSCo will require access to a considerable amount of LDZ data. We are not clear why this is needed. As above, further details will be submitted once we have reviewed the information flows paper.

16. Connections between LDZs

As above, there is very little detail in this section. We assume this will follow in due course.

17. LDZ Direct Input Points

Transco is currently required to auction capacity at LDZ direct input points and buy back capacity if there are constraints. We note that NGT plan to continue with these arrangements. In the main, this will not require DNCo agreement but DNCo will be required to accommodate flows or request that NTSCo buys back capacity. Where NTSCo buys back capacity, DNCo will be required to reimburse NTSCo. We believe these arrangements are wholly inappropriate and inconsistent with Ofgem's decision on roles and responsibilities. We believe arrangements need to be reviewed.

Price Control and Charging

SSE previously raised concerns regarding commercial frameworks and incentives. We note NGT's comments and look forward to further discussion once detailed offtake arrangements emerge.