

A blurred background image showing various electrical components, including a white plastic outlet cover with two yellow prongs, a metal terminal block with several wires, and a circuit board with components.

Potential sale of gas distribution networks Interactions between GTs and shippers post DN Sales – necessary licence modifications

Development & Implementation Steering Group
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Background (1)

- Offtake arrangements consultation in June 2004, considered 4 options for NTS offtake.
- Note that Options 1, 2, and 3 require an exemption from the Gas Act from the need to hold a shipper licence.
- Offtake arrangements conclusions in August 2004:
 - Option 2 chosen: “NTS connects booking model”

Background (2)

- As a result, in a post DN Sales world:
 - Interactions between GTs will need to be reflected, including the fact that GTs will (in some cases) be charging other GTs as well as shippers
- On the assumption that:
 - The Authority and the Secretary of State grant their consent to DN Sales in January 2005; and
 - NTS and DN-GTs are granted the exemption that they require to the Gas Act.

We have considered the licence amendments required to reflect these new arrangements

Licence modifications

- Licence modifications required to:
 - address definitions of “shipper”
 - consider where GT / shipper interactions should also be GT / GT interactions
 - consider the implications of Option 2A for the price control conditions and regulatory principal formulae

Definitions of “shipper” (1)

- There are currently two shipper related definitions within the licence:
 - **Shipper:** (as used in price control conditions - see Special Condition 28A of Transco plc’s existing licence)
*“means any gas shipper, **or person benefiting from an exemption under section 6A of the Act from the prohibition under section 5(1)(c) of the Act**, who has arranged with the licensee for gas to be introduced into, conveyed by means of, or taken out of the transportation system.”*
 - **Relevant shipper:** (see Amended Standard Condition 1 of Transco plc’s existing licence).
“means, in relation to any premises, a gas shipper which has made arrangements with the licensee in pursuance of which gas is conveyed to those premises and, in relation to any secondary sub-deduct premises, such arrangements shall be deemed to have been made where, in pursuance of arrangements made by a gas shipper, gas is taken out of the pipe-line system of the licensee at the relevant primary sub-deduct premises with a view to its conveyance to those secondary sub-deduct premises”

Definitions of “shipper” (2)

- **Gas shipper:** not defined in the licence since it is a term defined in the Gas Act (section 7A(11) Gas Act 1986)
“the holder of a licence...authorising any person to arrange with any gas transporter for gas to be introduced into, conveyed by means of or taken out of a pipeline system operated by that transporter, either generally or for purposes connected with the supply of gas to any premises specified in the licence”.

Definitions of “shipper” (3)

Proposals:

- Single definition of “gas shipper” to be explicitly included within A3, as per Gas Act definition, which excludes GTs that have been granted an exemption:
 - “gas shipper” shall have the meaning given to it in Section 7A(11) of the Act
- Definition of “shipper” within price control conditions deleted
- “relevant shipper” remains substantively unchanged
- Additional definitions to be used to indicate where GTs also affected:
 - DN operator
 - NTS operator
 - Relevant gas transporter – “NTS operator or DN operator”

Licence modifications required (1)

- A3 – Definitions and Interpretation: amend definition of “transportation arrangements” - such that it is not only gas shippers that may have gas introduced into, conveyed by means of and taken out of the licensee’s pipe-line system, but also “relevant gas transporters”

Licence modifications required (2)

- A4 – Charging Gas Shippers - General:
 - Change title from “Charging Gas Shippers – General” to “Charging – General”
 - Para 1a to be augmented by NTS Special Condition “specified descriptions of gas shippers **and/or DN operators as appropriate**”
- A5 – Obligations as Regard Charging Methodology:
 - To be augmented by NTS Special Condition, such that:
 - Para 2a: “consulted the gas shippers **and/or DN operators as appropriate**”
 - Para 2b: “representations (if any) made by gas shippers **and/or DN operators**”
- NTS Special Condition will make it clear that involvement of DN operators is only “appropriate” in the context of NTS exit capacity and flow flexibility products

Licence modifications required (3)

- A6 – Conduct of Transportation Business:
 - Para 1 currently says:

“The licensee shall conduct its transportation business in the manner best calculated to secure that neither -

 - (a) the licensee or any affiliate or related undertaking of the licensee, nor
 - (b) any gas shipper or gas supplier,

obtains any unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transportation business. ”
 - Introduce a paragraph (c) that states “any relevant gas transporter”

Licence modifications required (4)

- C1 – Definition of “LNG storage arrangements”:
 - Insert text in red: “means arrangements whereby gas shippers **and/or DN operators** may, from time to time and in different cases and circumstances, have gas stored in the LNG Storage Facilities”
 - Involvement of DN operators would be limited by the terms of the exemption

Licence modifications required (5)

- C5 – Licensee’s procurement and use of system management services (NTS)
 - Change para 6(c) – “...before revising the system management services adjustment data methodology the licensee shall:
 - (ii) consult **gas** shippers and allow them not less than 28 days in which to make representations
 - (iii) consult **DN operators where there is a potential impact upon NTS exit capacity or NTS flow flexibility and allow them not less than 28 days in which to make representations ”**
 - Change para 8(a) (review of statement of principles and criteria which will determine which system management services the licensee will use)– “in consultation with **gas** shippers and/or **DN operators** and other interested persons likely to be affected”
 - Change para 8(b)(iii) (reporting on outcome of above review to the Authority) – “representations or objections from **gas** shippers and/or **DN operators** and other interested parties”

Licence modifications required (6)

- D5 – Licensee’s procurement and use of system management services (DNs)
 - Change para 7(a) (review of statement of principles and criteria which will determine which system management services the licensee will use)– “in consultation with **gas** shippers and/or the **NTS operator** and other interested persons likely to be affected”
 - Change para 7(b)(iii) (reporting on outcome of above review to the Authority) – “representations or objections from **gas** shippers, the **NTS operator** and other interested parties”

Price control conditions

- Price control conditions generally: Change “shipper” to “gas shipper” throughout
- C8A – Revenue restriction definitions in respect of the NTS
 - Definition of NTS TO revenue: “services to gas shippers and DN operators”
 - Delete definition of “shipper”
- E2A
 - “Distribution Network transportation quantity” - “arrangements with gas shippers and other DN operators”
 - Delete definition of “shipper”
- Other changes to price control conditions as appropriate to reflect impact of exemption combined with Option 2A

A large, central version of the ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white lowercase letters on a red rounded rectangular background. The background of the slide is a faded, blue-tinted image of a gas meter and a woman sitting at a desk.

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