



*Promoting choice and
value for all customers*

Matt Golding
Commercial Manager
UK Transmission
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Your Ref:
Our Ref: CON/306
Direct Dial: 020 7901 7050
Email: robert.hull@ofgem.gov.uk

**And for the attention of all
Interested Parties**

04 April 2006

Dear Colleague,

Proposed amendments to the Interconnection Agreement between National Grid Gas and Interconnector (UK) Limited dated 25 August 1998 – request for approval under Standard Special Condition A11(18) of National Grid Gas's Gas Transporter Licence

Ofgem¹ has received a request from National Grid Gas (NGG) to approve proposed amendments to the Interconnection Agreement (IA)² between NGG and Interconnector (UK) Ltd (IUK) as detailed in the Eleventh Letter Agreement.

Paragraph J 6.4.1 of Section J (Exit Requirements) of the Uniform Network Code (UNC) specifies that the Transporter (NGG) will not agree with the Connected System Operator (IUK) to amend any provision of Connected System Exit Point (CSEP) Network Exit Provisions which is directly relevant to the arrangements between the Transporter and Users except with the approval of each User who is at the relevant time a CSEP User. The exception to this is if the Authority gives Condition A11 (18)³ approval to such amendment.

Due to practical difficulties in identifying and obtaining approval from each User NGG has historically requested Condition A11(18) approval of any proposed changes to the exit element of the IA, and has asked us to do so again for the new proposals.

The current IA is due to expire on 1 May 2006 and approval or rejection of the proposed amendments is due by this date.

¹ Ofgem is the office of the Gas and Electricity Markets Authority (Authority).

² The IA is, in effect, an amalgamation of a Network Entry Agreement and a Network Exit Agreement reflecting the capability of the facility to act as an entry and exit point from the National Transmission System (NTS). The IA governs the interface between National Transmission System and the Bacton/Zeebrugge Interconnector.

³ Standard Special Condition A11 (Network Code and Uniform Network Code).

Details of amendments

The proposed amendments seek an extension of the IA to 1 May 2011. Other significant amendments refer to the removal or replacement of clauses or diagrams and to changes to gas quality limits. The reasons for these amendments are outlined below.

Annex A diagram

NGG and IUK propose to include a new "connection facilities diagram" at Annex A. The diagram is not attached to this consultation letter for confidentiality reasons. However, the new diagram updates the valving, valves numbers and ownership boundaries and in addition, identifies pipeline modifications that are due to take place around the metering systems.

Amendments to gas quality limits at Bacton

Under Condition A11(18) the Gas and Electricity Markets Authority can make a determination approving proposed amendments to exit provisions only in respect of Section J of the UNC. NGG proposes to amend the Exit gas quality limits at the Bacton/Zeebrugge terminal, to bring them into alignment with recent changes to the terminal's Entry gas quality limits.

The changes relate to:

1. Amending the maximum carbon dioxide content from 2.0 mol% to 2.5 mol%;
2. Removing the maximum nitrogen content limit of 5.0 mol%;
3. Amending the Wobbe Index from 54.0 MJ/Nm³ to 54.25 MJ/Nm³;
4. Amending the maximum total sulphur content from 15ppm vol to 30mg/Nm³; and
5. Removing the maximum inert gases limit of 7.0 mol%.

Reasons for changes

The proposed changes to the Exit gas quality specifications are to bring them into line with the recent changes to the Entry gas quality specifications such that IUK shippers operate to a consistent set of gas quality parameters at entry and exit. The proposed changes to the Entry gas quality specification are intended to implement:

- (i) the revised limits on carbon dioxide, nitrogen and total inerts as described and allowed for by UNC modification 0049⁴; and
- (ii) the revised limits on total sulphur and upper Wobbe limit as described and allowed for by UNC modification 0069⁵.

The impact of making the above changes to the Entry gas quality limits was considered as part of the UNC modification process and, in respect of Modification 049, the associated Regulatory Impact Assessment. NGG do not believe that amending the Exit specification to align with the Entry specification will have any adverse impacts on

⁴ Uniform Network Code modification 049 "Optional limits for inert gases at System Entry Points"
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13384_049D.pdf

⁵ Uniform Network Code modification proposal 069 "Amendment of Network Entry Provisions at the European Interconnector sub-terminal at Bacton"
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13825_UNC069D.pdf

consumers, shippers or producers; it will simply allow gas of wider specification to be exported to Europe.

Annex B-2: Quality

NGG proposes that the reference to “Hydrocarbon Dewpoint” at paragraph 3.2 of Annex B-2 be removed. At the time the IA was originally agreed, NGG was uncertain as to whether it would be able to consistently meet the IUK Exit gas quality specification for Hydrocarbon Dewpoint due to the fact that a number of sub-terminals at Bacton operated legacy arrangements which permit a seasonal relaxation in Hydrocarbon Dewpoint. NGG was mindful that such arrangements could have compromised its ability to deliver gas to IUK with a compliant Hydrocarbon Dewpoint level. NGG therefore required that a clause be included within the Interconnection Agreement which effectively provides that in the event it delivers gas which does not comply with the Hydrocarbon Dewpoint level, it would not be in breach of the Exit gas quality specification provided it could demonstrate that it had taken all reasonable measures to deliver compliant gas. This 'qualified requirement' clause is required to be renewed each time the Interconnection Agreement is updated.

IUK have requested that this clause be removed on the basis that Hydrocarbon Dewpoint has not been an issue for many years and that, more fundamentally, there are now new supplies available to NGG at Bacton that will further reduce the risk of NGG delivering gas to IUK which does not comply with the Hydrocarbon Dewpoint limit. NGG is prepared to accept the removal of this clause.

NGG further proposes to delete clause 7. “CO₂ Content Revisions” which gives NGG the right to ask for a change to the prevailing carbon dioxide limits (for entry and exit) within the Interconnection Agreement subject to a three year notice period and a right to challenge from IUK. At the time the IA was originally agreed, NGG was uncertain as to whether it would be able to reliably meet the carbon dioxide exit specification of 2% given that certain NTS entry points have contractual Entry specifications which permit the delivery of gas with carbon dioxide levels in excess of the IUK 2% limit. Furthermore, due to the uncertainty regarding the future direction of European gas quality limits in relation to carbon dioxide, NGG has previously sought inclusion of this clause within the Agreement in order to give greater comfort that it would be able to ensure alignment with any future European specification.

Given that the maximum specification for carbon dioxide level at Zeebrugge is 2.5% and that following the approval of modification 049 the maximum specification at Bacton is also 2.5%, IUK have requested that, subject to the carbon dioxide limit in the Interconnection Agreement being amended to 2.5%, the revision clause be removed. In view of its past performance in meeting the existing Exit gas quality limit for carbon dioxide and its confidence in being able to meet the proposed future limit of 2.5%, NGG has agreed that it is prepared to accept the removal of this clause.

NGG and IUK propose to replace the above with a new clause 7, “Valves”. The new clause 7 confirms that NGG is the owner and operator of three specifically identified valves that exist on the Bacton site. This confirmation is required for the purposes of the Pressure System Safety Regulations such that a responsible party is identified for maintenance of these assets. Given the close proximity of these valves to the IUK plant, and the impact that the operation or failure of these valves could have on IUK operations, this new clause additionally provides IUK with rights of access to maintenance records and certificates pertaining to the three valves for assurance purposes.

Annex B-3: Exit Pressure

NGG and IUK propose to amend paragraph 4.1 (a) of Annex B-3, to replace “18,504 MW Variable” with “42,000 MW Variable”. The Interconnection Agreement allows for a pressure service to be provided by NGG to IUK in respect of gas that is delivered to IUK for onward flow to Europe. The extent of the pressure service is limited by the capability of the compressors at Kings Lynn. These compressors were up-rated in 2005 such that there is now more compression power available at this facility. The proposed contractual change from 18,504 MW variable to 42,000 MW variable represents the increase in power of the compressors at Kings Lynn that is available for utilisation as part of the pressure service.

It is also proposed to amend the formula at paragraph 6.1(b) to correct a drafting error. This formula is designed to calculate the cost of the fuel gas used to provide the pressure service to IUK. As currently drafted, the formula applies an incorrect conversion factor when determining the energy content (in kWh) of the fuel gas used to provide the pressure service from the volume (in m³) and calorific value (in MJ/m³) of the gas consumed.

It should be noted that although the calculation in the contract was incorrectly drafted, the calculation was performed correctly within the actual systems that determined the fuel gas costs that have been charged to IUK. As such, no billing adjustments are required to be made as a result of the identification of this drafting error.

NGG further proposes to rebase the value of PPI_0 so as to ensure consistency with the rebased values of PPI_0 published by the Government on 23 September 2003⁶. PPI_0 which is defined as the arithmetic average of the monthly values of the Producer Prices Index for the twelve months from 1 July 1996 to 30 June 1997, is used within the IA to calculate annual charges in the proportion of compressor maintenance costs recharged to IUK. It is therefore proposed that PPI_0 be amended to 97.683.

Further amendments

There are a number of further minor changes proposed by NGG. These are listed below:

- (i) in the first line of clause 9.2 add the words “from time to time” after “agreed between the Operators”;
- (ii) in clause 16.4(a) delete the reference to “Commercial Manager” in the notice details for Interconnector (UK) Limited and replace with “Development Director”;
- (iii) delete clause 17 (RTPA Clause): pursuant to the Competition Act 1998 (CA), the Restrictive Trade Practices Act 1976 (RTPA) was repealed. However, the CA provided for a transitional period so that certain provisions of the RTPA would (notwithstanding its repeal) continue to apply to certain types of agreement, including Network Exit Agreements (including the IA). As a result, such agreements usually contained a clause (commonly known as an “RTPA clause”) which dealt with submission of the agreement to the Authority pursuant to the RTPA provisions and the effect if the Authority rejected the agreement for RTPA

⁶ The specific index used is the index of “Output prices” of “All manufactured products” which can be found at http://www.statistics.gov.uk/downloads/theme_economy/PPI_2000-100_Backdata.xls

purposes. The transitional period ended on 28 February 2005 and, accordingly, the RTPA clause in the IA is no longer required;

- (iv) in Annex B-2, insert a new paragraph 2.5 as follows: "In order to minimise the level of solid material (if any) contained in Exit Gas, National Grid Gas and IUK shall each comply with any velocity control protocol which may be agreed between the Operators from time to time. To the extent that Exit Gas does contain any solid material, National Grid Gas and IUK agree to co-operate with each other to ensure the safe disposal of any such material"; and
- (v) re-title "Annex C-3" as "Annex F-1" and move to the end of the Agreement. Insert new paragraphs "5. Velocity Control Protocol" and "6. Flyover Valves Protocol" to Annex F 1, and replace all references to "Annex C-3" in the Agreement with "Annex F-1".

Next steps

Views are invited on the proposals put forward by NGG and the impact that these could have. Following the receipt of these responses the Authority will issue a decision on whether to make a determination granting Condition A11(18) approval of the proposed amendments.

Please provide written comments by or before **4pm on Tuesday 18 April 2006** to Nicola Love (nicola.love@ofgem.gov.uk).

If you have any queries in relation to the issues raised in this letter, please feel free to contact Lesley Nugent on 0141 331 6007, Roger Morgan on 020 7901 7346 or Nicola Love on 020 7901 7036.

Yours sincerely,

Robert Hull
Director, Transmission