

New entry arrangements for connecting to the gas distribution network

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Overview:

This document consults on Ofgem's initial thoughts about how a contractual approach for connecting entry points, such as gas storage facilities to the gas distribution network could operate. It includes Ofgem's role to determine arrangements where there is no agreement between the network owner and the entry point. It also sets out an interim arrangement for one entry point wanting to flow gas before any longer term contractual arrangements have been implemented.

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Target Audience: This document is addressed to gas storage operators, gas distribution networks, gas transporters, gas shippers, gas suppliers and other interested parties.

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Context

Most entry points into the gas network in Great Britain are connected to National Grid Gas' (NGG) National Transmission System (NTS). There are a small number of entry points connected directly to the Gas Distribution Networks (GDNs). Ofgem is also aware of two potential new entry points to the GDNs. While Ofgem does not expect a large number of new entry points to connect to the GDNs, there might be circumstances in which it is more efficient and economic for new entry points to connect to the local GDN rather than the NTS.

Existing entry points connected to the GDNs are deemed to be NTS entry points for the purposes of the commercial and regulatory framework. Entry capacity for these entry points is sold by NGG NTS in accordance with the Uniform Network Code (UNC) and under the framework of NGG NTS's gas transporters' licence. The Offtake Arrangements Document (OAD) of the UNC governs the arrangements between the NTS and GDNs for making capacity available at these entry points.

It is not clear that these arrangements provide an appropriate long term commercial and regulatory framework for GDN entry points. In May 2005, Ofgem consulted on developing a contractual framework for new entry points connecting to the GDN. This consultation takes forward that proposal and seeks views on how it should be implemented.

This consultation also sets out possible interim arrangements for a new GDN entry point (Holford storage facility owned by Ineos Chlor) that would like to start commercial operations from this autumn.

Associated Documents

- Gas Transmission - new NTS entry points, reserve prices in auctions and unit cost allowances (UCAs), Consultation Document – May 2005
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/transcopricecontrolreview>

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Summary

This document sets out Ofgem's initial proposals for the long term commercial and regulatory arrangements for entry points connecting to the GDNs. The document also sets out possible interim arrangements to allow a storage site owned by Ineos Chlor at Holford to start commercial operation this autumn.

May 2005 consultation

In May 2005, Ofgem consulted on two options for long term commercial and regulatory arrangements for new GDN entry points as part of a consultation on NTS entry arrangements. Ofgem consulted on introducing a:

- similar approach used for NTS entry points, including defining a baseline capacity that the NTS would have to make available at the entry point and a Unit Cost Allowance (UCA) to reflect the cost of additional investment; or
- contractual approach, in which the GDN and new entry point agree commercial arrangements, with a dispute resolution process, possibly involving Ofgem.

All of the respondents who commented supported a contractual approach.

Implementing the contractual approach

Ofgem considers that a contractual approach, with the opportunity to refer substantive disagreements to Ofgem for determination, would provide the best commercial and regulatory framework for new GDN entry points. As well as reflecting the views of respondents to the May 2005 consultation, a contractual approach would allow each set of arrangements to reflect the requirements of the new entry point and the capability of the network.

Ofgem's initial view is that a licence modification to each of the GDN's gas transporters' (GT) licences is the best way to implement the new arrangements. This licence modification would:

- set out the key principles with which the GDN must comply when entering into GDN entry arrangements;
- require the GDN to publish the main commercial terms and conditions on which it will enter into GDN entry arrangements;
- require the GDN to engage in negotiations on GDN entry arrangements upon application from a potential GDN entry point;
- enable a new GDN entry point to request Ofgem to determine GDN entry arrangements when agreement cannot be reached; and
- require the GDN to offer GDN entry arrangements in accordance with any determination by Ofgem.

Ofgem has set out some initial thoughts on the main issues that will need to be agreed on for new GDN entry arrangements, including entry capacity rights, the

allocation of entry rights, charging arrangements and treatment of GDN revenue, operational issues and the ability to trade gas at the National Balancing Point (NBP).

Existing GDN entry points

Ofgem considers that new long term commercial and regulatory arrangements for GDN entry points should, in due course, apply to existing and new GDN entry points. Ofgem is aware of three existing DN entry points - Hatfield Moor, Isle of Grain and Wytch Farm. The current arrangements for these sites are explained in Chapter 4. Broadly these sites can be described as being deemed NTS entry points. Ofgem is seeking views on whether these sites should be migrated to the new arrangements, the process that should be followed and the timetable for doing so.

The interim arrangements for the Holford storage facility

Ineos Chlor has requested that interim arrangements be put in place to allow it to operate its Holford storage facility commercially this autumn. Ineos Chlor has recently taken over operational control of the site having previously leased the site to NGG, who used it for diurnal storage on the GDN.

Ofgem considers that interim arrangements are appropriate to allow commercial operation of the Holford storage facility this autumn, while taking into account that existing arrangements for GDN entry points are expected to change by October 2007. However, it is important that the interim arrangements does not impose significant costs on NGG GDN and does not impede migration of the site to any new commercial and regulatory arrangements.

Some aspects of the interim arrangements as proposed can only be implemented by UNC modifications. As Ofgem considers the interim arrangements to be an overall package of arrangements, Ofgem does not intend to propose any modifications to NGG NTS's licence until it has considered responses to this consultation and any relevant UNC modifications' proposals.

Ofgem will also consider any alternative interim arrangements for the Ineos Chlor facility proposed by interested parties as part of this consultation. Any alternative proposals should be able to be implemented in time to allow Ineos Chlor to start commercial operations this autumn.

Next steps

In autumn 2006, Ofgem expects to publish a proposals document for new commercial and regulatory arrangements for GDN entry points. This document will include any proposed licence modifications to implement the new arrangements. Ofgem expects the arrangements to be implemented by October 2007.

1. Introduction

1.1. Historically, most entry points have connected directly to the NTS. Given the lack of entry points wanting to connect to GDNs, it has until recently been considered proportionate to deem existing GDN entry points to be NTS entry points for commercial and regulatory purposes. These points are either deemed to be part of a related NTS entry point¹, or deemed to be an NTS entry point in their own right.²

1.2. Developing regulatory and commercial arrangements for new GDN entry points has become more important given requests from two new gas storage operators who want to connect their facilities to the local GDN. These are:

- a development by Star Energy at Aldbury, which is considering a connection to a Scotia Gas Networks owned GDN in the south of England at Ripley; and
- an existing storage facility owned by Ineos Chlor connected to an NGG GDN, which is looking to operate the storage facility commercially for this coming autumn.

1.3. Given the number of new storage and LNG developments being considered in the UK at the moment, there is an increased possibility in the future of further GDN entry points.

1.4. This consultation discusses the issues associated with GDN entry arrangements and makes proposals for developing a long term regime for new and existing GDN entry points. These proposals follow on from Ofgem's May 2005 consultation, which discussed a contractual approach for new GDN entry points. It is expected that the implementation of any long term arrangement would occur by October 2007, given the time needed to consult, discuss with relevant industry participants and undertake any potential modifications to the NTS and GDN gas transporters' licences, and the UNC.

1.5. Ofgem is mindful that the new GDN entry arrangements that emerge from this consultation should not distort the decision of any potential new entry point between connecting to the GDN or the NTS. The location of new storage facilities will be determined by the location of suitable storage cavities. New commercial and regulatory arrangements for GDN entry points should ensure that where connecting to the GDN is the most economic and practical option, this is the option that is chosen, rather than the alternative of a connection to the NTS.

1.6. This consultation is considering GDN entry arrangements. Reforms of the offtake arrangements for the NTS and interruption arrangements on the GDNs are being considered separately by Ofgem.³ GDN entry points, which include storage operators that can offtake gas from the system, will be subject to the prevailing exit arrangements in line with the UNC and with any future arrangements that emerge from the reform of GDN interruptions.

¹ There are two DN entry points into Scotia's network from the Isle of Grain LNG facility, which are effectively considered to be part of the Isle of Grain NTS entry point for UNC entry and nomination requirements.

² Hatfield Moor and Wytch Farm.

³ Transmission Price Control Review 2007-2012: Third Consultation, Ofgem - March 2006 and Initial thoughts on reform of distribution arrangements on gas distribution networks, Ofgem - May 2006.

2. Previous consultation on GDN entry arrangements

This chapter summarises the two options considered by Ofgem for a longer term framework for new GDN entry points in Ofgem's May 2005 consultation. The chapter also summarises respondents' views on the options.

2.1. Ofgem previously discussed the development of a regulatory regime for new GDN entry points in its consultation on NTS entry points published in May 2005.⁴ Although the consultation largely focused on establishing new UCAs for NTS entry points, potential arrangements for GDN connected entry points were also discussed. The consultation proposed two options for commercial and regulatory arrangements for new GDN entry points.

The existing NTS approach

2.2. Under the current arrangements for NTS entry points, NGG NTS offers entry capacity for sale in the long term (up to 15 years) and short term (on the day firm and interruptible capacity) auctions. NGG NTS has a "baseline" quantity of capacity it must make available in the auctions. NGG NTS must then also consider whether to invest in new entry capacity in response to the signals from purchases in the auctions and other planning information.

2.3. A UCA (set by Ofgem) is an estimate of the unit cost of providing long-run incremental entry capacity on a firm basis at an NTS entry point. It also sets the reserve price for the auction of entry capacity. UCAs are intended to reflect the cost of network reinforcement triggered by incremental flows. While a storage site connected to the NTS is unlikely to require reinforcement as the flow of additional gas would represent a small proportion of the network capacity of the NTS, the capacity of a storage site connecting to the GDN could be a significant proportion of GDN capacity. This could trigger significant reinforcement to accommodate the extra flow which could produce a high UCA, and high barrier to passing the Net Present Value (NPV) test for building new capacity, as set out in the Incremental Entry Capacity Release (IECR) methodology statement.

The Contractual approach

2.4. The contractual approach involves a bilateral agreement between the GDN and the new GDN entry point on appropriate flow rates and associated entry capacity rights for the new GDN entry point. It could also include a dispute resolution process possibly involving Ofgem. This approach was considered to be more flexible than applying the NTS approach to GDN entry points as it could be tailored to the specific needs of a new GDN entry point. The possible need to introduce new licence requirements on GDNs to treat applications for new GDN entry points in a non-discriminatory manner was also raised.

⁴ Gas Transmission – new NTS entry points, reserve prices in auctions and unit cost allowances (UCAs), Consultation Document – May 2005.

Views of respondents

2.5. Five responses were received on the treatment of GDN entry points. There was unanimous support for the contractual approach among respondents who commented on this issue. These included gas storage operators, shippers and NGG GDN. The contractual approach was considered to be flexible and more appropriate for developing an economic and efficient system. In contrast, the UCA approach was considered to be neither appropriate nor proportionate, particularly as potential new entry points are likely to be storage sites that do not require firm entry rights. Other notable points made in the responses, included:

- some respondents supported the provision of firm entry capacity rights accommodated without any system reinforcement, and then provision of a non-firm service based on expected GDN demand conditions;
- the importance of GDNs acting in a non-discriminatory manner was highlighted, although there was a difference of opinion as to whether this required new licence conditions or if existing requirements were sufficient;
- some respondents suggested that an allocation agent would be required to allocate charges between shippers on the day, if the entry point was to be used by more than one shipper; and
- a number of respondents suggested that terms contained in the generic Storage Connection Agreement (SCA) could be a starting point to set out operational parameters for new GDN entry points.

2.6. Ofgem evaluates the two options for long term commercial and regulatory arrangements in the next chapter.

3. Long term arrangements for GDN entry points

This chapter explains Ofgem's proposal that the long term commercial and regulatory framework for GDN entry points should be based on a contractual approach between the new entry point and the relevant GDN. The chapter also seeks views on how this approach should be implemented, as well as discussing a number of key issues relevant to GDN entry arrangements.

Question 1: Is a modification of the GDN's GTs' licence the best way for Ofgem to implement a contractual approach for new commercial and regulatory arrangements for GDN entry points?

Question 2: What are the views of interested parties about the key issues relevant to GDN entry arrangements?

Question 3: Are there any further key issues not discussed in this chapter that should be considered?

Evaluating the two options for GDN entry arrangements

3.1. As set out in Chapter 2, Ofgem is revisiting the two options discussed in its May 2005 consultation. Ofgem's views on each option are set out below:

The existing NTS approach

3.2. In line with respondents' views, Ofgem considers the adoption of the NTS entry approach, together with the development of a UCA, to be inappropriate for new GDN entry points given their size and the relatively small number of new sites that are expected to be interested in connecting. The NTS entry regime is predicated on the release of firm entry rights. However, given the low commercial value attached by storage operators to flowing gas into the GDN at certain times of the year, firm entry rights might not be required by most storage sites.

3.3. A storage facility would typically flow gas into the GDN during periods of high demand and take gas off the system at times of low demand. A requirement for firm rights could make the project economically unviable if substantial reinforcement is required, which could discourage the entry of new storage operators.

Contractual approach

3.4. Ofgem considers that a contractual approach will provide the most appropriate long term commercial and regulatory arrangements for GDN entry points. The contractual approach offers a more flexible solution as the needs of each GDN entry point can be considered on a case by case basis.

3.5. There may be a need to consider whether the contractual approach would be appropriate for a GDN entry point once it reaches a certain size. Ofgem would

welcome views on whether the size of a GDN entry point should be a factor in determining the suitability of the contractual approach.

Proposed contractual approach

3.6. Under the proposed contractual approach the GDN and the new GDN entry point would enter into a bilateral agreement which establishes the entry arrangements for the new GDN entry point. It is expected that such arrangements would include:

- providing the maximum available entry capacity;
- apportioning available entry capacity;
- charging arrangements;
- operational issues; and
- access to the wholesale market at the NBP.

3.7. The advantage of greater flexibility available through a contractual approach could be undermined by a persistent failure of GDNs and new entry points to agree on suitable arrangements. Ofgem considers it important to recognise this possibility, while also trying to reduce the likelihood of disagreements. Ofgem considers that the contractual approach needs to be underpinned by giving power to Ofgem to determine the entry arrangements for an entry point where the parties cannot reach agreement.

3.8. In order to reduce the likelihood of disagreements between the parties, Ofgem considers that the contractual approach should include key principles in the licence that each GDN must comply with when entering into GDN entry arrangements.

3.9. Ofgem also considers that GDNs should be required to publish the main commercial terms and conditions it will offer to GDN entry points. This will assist in achieving transparency and non-discrimination between GDN entry points.

3.10. Ofgem would welcome views on the proposed contractual approach described above.

Implementing a contractual approach

3.11. We discuss some proposals for implementing a contractual approach below.

Possible modification to the GDN's GTs' licences

3.12. Ofgem's initial view is that the best way to implement the contractual approach is through a modification to the GDN's GDTs' licence. This licence modification would:

- set out the key principles with which the GDN must comply when entering into GDN entry arrangements;

- require the GDN to publish the main commercial terms and conditions which they will offer to GDN entry points;
- require the GDN to engage in negotiations on GDN entry arrangements upon application from a potential GDN entry point;
- enable a new GDN entry point to request Ofgem to determine GDN entry arrangements when agreement cannot be reached with the GDN; and
- require the GDN to offer GDN entry arrangements in accordance with any determination by Ofgem.

3.13. Ofgem would welcome views on the need for a new licence condition to give effect to a contractual approach for new commercial and regulatory arrangements for GDN entry points.

3.14. Ofgem does not consider that it would be appropriate for it to be asked to determine on relatively minor points of disagreement, e.g. detailed operating procedures. It is difficult to define in advance which issues would be material to a particular entry point. Ofgem is considering listing the issues on which it would determine, but leaving open the option for a new entry point to ask Ofgem to determine other issues it considers to be appropriate for determination. Ofgem would decide whether or not to make a determination on such issues on a case by case basis.

Alternative methods of implementing the contractual approach

3.15. We have considered whether the new arrangements for GDN entry points could be implemented by allowing the parties to enter into commercial agreements and then rely upon existing dispute resolution mechanisms in either the Gas Act 1986 or EU Directive 2003/55/EC concerning common rules for the internal market in natural gas ("IMGD"). Our initial view is that neither mechanism is suitable.

3.16. Firstly, the Gas Act 1986 provides the Authority with the power to determine certain disputes under section 27A. However, section 27A of the Gas Act 1986 only applies to disputes between a gas transporter and an existing or potential customer of a gas supplier, or a gas supplier and an existing or potential customer of a gas supplier. Any dispute arising under the GDN entry point arrangements would be between a GT and an entry point, and not necessarily involving a gas supplier. On this basis, the existing dispute resolution mechanism in the Gas Act 1986 appears to be unsuitable for the new arrangements for GDN entry points.

3.17. Secondly, the Authority is required to determine disputes referred to it under Article 25(5) of the IMGD. A party which has a complaint against a distribution system operator in relation to certain issues prescribed in the IMGD may refer the complaint to the Authority. We are concerned that the scope of the issues which may be referred to the Authority under Article 25(5) of the IMGD is not sufficiently wide to cover all potential disputes, which may arise between the parties in relation to GDN entry point arrangements.

Key principles for inclusion in the licence condition

3.18. There are a number of key issues that will need to be agreed between a new GDN entry point and the GDN. In order to reduce the likelihood of disagreements between the parties, Ofgem is considering including in the GDN's licence key principles which GDNs must comply with when entering into GDN entry arrangements. We consider what the appropriate principles might be below.

Non-discrimination

3.19. As each GDN entry point is likely to have different requirements, a standard set of arrangements may not be appropriate. It will be important for each GDN to ensure that the terms they offer for GDN entry are equivalent to those offered previously to GDN entry points with similar requirements. Ofgem considers that including a requirement for terms to be offered on a non-discriminatory basis within the licence condition would be appropriate as it is a key principle for GDN entry arrangements. Any such licence obligation would be in addition to the GDN's obligation under section 9 of the Gas Act 1986.

3.20. Ofgem would welcome views as to whether the licence condition to implement the new commercial and regulatory arrangements for GDN entry points should include a requirement for GDNs to offer terms that are non-discriminatory.

Other principles

3.21. It is not apparent that there are any further key principles for inclusion in the licence which GDNs must comply with when entering into GDN entry arrangements. However, Ofgem would welcome views as to whether there are any further key principles which should be included in the licence condition to implement the new commercial and regulatory arrangements for GDN entry points.

Key Issues

3.22. There are a number of key issues that will need to be considered in order to implement the contractual approach to GDN entry arrangements. We consider these below.

Providing the maximum available entry capacity

3.23. Ofgem anticipates that the amount of entry capacity that GDNs make available to new entry points will be a fundamental part of any agreement about GDN entry arrangements.

3.24. Ofgem considers that the GDN should offer new GDN entry points the maximum capacity that the network can provide without the need for reinforcement. In some cases this might allow more entry capacity to be made available than the new entry point requires. For example, a storage facility might be content with having entry capacity on an interruptible basis, while the network is capable of offering some firm capacity. To avoid risks of undue discrimination, the GDN could provide the new GDN entry point with analysis of available capacity for a range of

plausible demand levels and patterns on its network, prior to commencing discussions about the entry capacity rights.

3.25. Where the entry point wants entry capacity that can be provided without reinforcement⁵, Ofgem would expect the GDN to be flexible in the capacity it makes available. Flexibility will also recognise that the available capacity is dynamic depending on the demand levels and profiles on a network, so available entry capacity might be different depending on the demand conditions. A proxy for this could be the days of demand across the year, with more firm rights available for higher demand days. Capacity could be made available on an interruptible basis only or on a firm basis with buy back rights, if that capacity cannot be made available on a particular day.

3.26. If the new GDN entry point wanted more capacity than the system could provide, Ofgem considers it would be reasonable for the GDN entry point and the GDN to follow a process, similar to that for new connections, to determine the required reinforcement and the associated cost. Depending on the nature of the reinforcement required, it might be appropriate for the new GDN entry point to be asked to contribute to the cost of the reinforcement or, alternatively, to demonstrate that it is committed to developing the entry point and flowing gas by paying transportation charges for a number of years.

3.27. Ofgem would welcome views on the entry capacity issues set out above. In particular, whether this issue should be addressed within the licence.

Apportioning available entry capacity

3.28. Consistent with the contractual approach proposed by Ofgem, available entry capacity at entry points will be allocated by the entry point. GDNs will need to ensure that they receive adequate information from the entry point about the shipper(s) that will be responsible for entering gas. If the entry point would like the GDN to take responsibility for allocating entry capacity Ofgem considers that it would be reasonable for GDNs to receive some payment for the costs incurred.

3.29. Ofgem would welcome views on the entry capacity allocation issues set out above. In particular, whether this issue should be addressed within the licence.

Transportation charging arrangements and revenue recovery

3.30. The GDNs transportation charging methodology does not include charging arrangements for GDN entry points. Ofgem understands that the three existing GDN entry points do not pay any GDN specific charges relating to entry. As part of the new commercial and regulatory arrangements for GDN entry points, Ofgem would expect the GDNs to make appropriate changes to the transportation charging methodologies so as to include charging arrangements for GDN entry points. Any proposed changes would be subject to Ofgem approval under Standard Special Condition A5 of the GDNs gas transporters' licence.

⁵ In applying for a connection, a GDN entry point may be required to submit a Siteworks application to the GDN for their consideration.

3.31. Ofgem would expect the charging arrangements to differ depending upon the type of entry capacity granted. If an entry point is given firm entry capacity, it is likely to be appropriate for the shipper to pay entry capacity and commodity charges. If entry capacity was on an interruptible basis, it might be appropriate that the shipper only incurred the entry commodity charge. This would be broadly consistent with the charging arrangements for the NTS.

3.32. As Standard Special Condition A5 of the GDNs gas transporters' licence includes the relevant methodology objectives that the transportation charging methodology must achieve, Ofgem does not consider that it is necessary to include in the licence further principles relating to transportation charges to facilitate the new commercial and regulatory arrangements for GDN entry. Ofgem would welcome views on the broad guidance above regarding new charging arrangements, while recognising that the issues would be considered more fully when the GDNs propose new charging arrangements.

3.33. Ofgem considers that there are three broad options as to how the revenue that the GDNs derive from the provision of entry capacity could be treated:

- **Price controlled revenue** - The transportation and connection revenue could be included in the GDN's allowed revenue based on a forecast of this revenue for each control period. At the next control, the asset would be included in the Regulated Asset Value (RAV) if it was physically connected;
- **Excluded service** - The transportation and connection revenue could be treated as an excluded service and as such would not be included in the allowed revenue. Ofgem would make a forecast of this revenue when setting the price control; or
- **Hybrid of the two options** - The transportation and connection revenue could be included in the price control, while any contribution paid by a GDN entry point towards the cost of reinforcement could be treated as excluded revenue, in line with existing connections revenue. At the next control that part of the asset not paid for by the new GDN entry point would be included in the RAV.

3.34. Ofgem would welcome views as to which option would be the most appropriate and whether there are any other options that should be considered.

Operational issues

3.35. Ofgem expects that discussions about the operational framework will be conducted between the new GDN entry point and GDN on a case by case basis.

3.36. The existing Network Entry Agreement (NEA) and Storage Contract Agreement (SCA), which govern the entry and exit arrangements for NTS sites, might be suitable templates to form the basis of a discussion between the GDN and new entry point. There would be some negotiation around the main terms of the NEA or SCA to recognise entry points specific operational issues. In particular, Ofgem would expect GDNs to seek to accommodate operational requirements of the new entry point that would not lead to it incurring any additional costs.

3.37. The GDN will also need to take responsibility for managing the technical and operational arrangements with the NTS. These arrangements are set out in the Offtake Agreement Document (OAD), a UNC related document. For example, the

GDN will need to consider the implications that a new GDN entry point could have on displacing gas from the NTS when booking its exit requirements off the NTS. If the connection of a new entry point to the GDN led to the GDN incurring unavoidable costs for NTS offtake capacity then Ofgem's initial view is that it would be reasonable for the new entry point to bear these costs. Whether any unavoidable costs are incurred by the GDN will depend on whether the notice period for a new entry point is shorter than the period for GDNs to adjust their NTS offtake capacity bookings.

3.38. Ofgem would welcome views as to whether the NEA and SCA provide broadly appropriate templates to discuss operational issues for new GDN entry points.

Access to the wholesale market at the NBP

3.39. Ofgem understands that in most, if not all, cases, GDN entry points will want the opportunity for shippers to trade the gas entered into the GDN at the NBP. Ofgem has no objection to this in principle, but the detailed arrangements to facilitate this need to be considered and satisfactorily resolved. The main issue to be resolved is how gas entered into the GDN is recognised for the purposes of balancing on the NTS, so that it can be traded at the NBP, while ensuring that it is reconciled with actual physical flows, i.e. reduced gas offtaken from the NTS by the GDN. Gas entered at existing GDN entry points is recognised for NBP trading because NTS entry capacity is purchased for the GDN entry points although the gas never physically enters the NTS.

3.40. Ofgem would welcome views as to whether new GDN entry points should be able to trade gas at the NBP and the best mechanism to facilitate this trading.

Key points

3.41. Ofgem considers that a contractual approach, with the opportunity to refer substantive disagreements to Ofgem for determination to be the best commercial and regulatory framework for GDN entry points. Ofgem's initial view is that the new arrangements are best introduced by a modification to the GDNs' licence.

3.42. Ofgem is proposing that the licence condition includes a requirement for the GDNs to offer entry arrangements on a non-discriminatory basis. Ofgem is not proposing to include any other specific principles in the licence condition at this stage, but has set out initial thoughts for comment on maximum available entry capacity, the allocation of entry capacity, charging arrangements and treatment of GDN revenue, operational issues and the ability to trade gas at the NBP.

3.43. Ofgem would also welcome views as to whether it has identified all the key issues for new GDN entry points, and if not, what other issues Ofgem should consider.

4. Existing GDN entry points deemed to be NTS connected

This chapter explains the commercial and regulatory arrangements for the three existing GDN entry points and proposes that in due course the arrangements for these entry points should migrate to the contractual approach proposed for new GDN entry points. This chapter also seeks views on how the transition to the new arrangements should be managed for these entry points.

Question 1: Is there any reason why the three existing GDN entry points should not in due course have the same commercial and regulatory arrangements as new GDN entry points?

Question 2: How should a timely transition to the new arrangements be facilitated while preserving existing entry capacity rights?

Introduction

4.1. Ofgem considers that the new arrangements for GDN entry points proposed in Chapter 3 should in due course apply to new and existing GDN entry points. There are existing GDN entry points deemed to be NTS connected at Wytch Farm, Hatfield Moor, and the Isle of Grain. The current arrangements for all these entry points are explained below.

Hatfield Moor and Wytch Farm

4.2. Wytch Farm is connected to the Southern GDN owned by Scotia Gas Networks and Hatfield Moor is connected to an NGG GDN. The former is operated by BP and owned by a group of companies including BP, while the latter is owned by Scottish Power.

4.3. In the absence of any specific commercial and regulatory framework for new GDN entry points, a UCA was established for these two points during the setting of the current NGG NTS price control. This means that while the points are physically connected to the GDN, they are deemed to be NTS connected for their commercial and regulatory arrangements. The NTS auctions entry capacity and the gas entering the system is deemed to flow to the NBP, which gives shippers access to the wholesale gas market. The rules for the treatment of these entry points are defined in the UNC and NGG NTS's GTs' licence. The contractual arrangements between the NTS and GDN, which includes the GDN's obligation to provide the physical capacity, are governed by the OAD, which is part of the UNC.

4.4. In common with other NTS entry points, a baseline entry capacity and UCA was established for these two points. Given the very low flow rates of both facilities and that only reinforcement of the NTS was considered, Wytch Farm was assigned a zero UCA, while Hatfield Moor was set a low UCA of 0.042 (£/kWh). The positive UCA for Hatfield Moor was based on the potential reinforcement costs of the second facility at the site, which is connected to the NTS.

4.5. Hatfield Moor and Wytch Farm have respective entry capacity baselines of 1.0 GWh/day and 3.2 GWh/day.

Isle of Grain

4.6. Grain LNG, a wholly owned subsidiary of NGG plc owns the LNG import terminal on the Isle of Grain and gas feeds into the NTS and Scotia's Southern GDN. Although the majority of gas from the facility enters the NTS, a significant volume feeds directly into two metered GDN entry points.

4.7. As with Wytch Farm and Hatfield Moor, the two GDN entry points at the LNG facility are deemed to be NTS connected. However, unlike Hatfield Moor which has distinct entry rights for the separate NTS and GDN connected points as identified in the NTS licence, no distinction is made between the two types of entry points at the Isle of Grain. GDN entry at the Isle of Grain is treated as part of the overall NTS entry point, so while shippers only nominate entry capacity for the NTS, they are entitled to flow some of this gas into the GDN.

Recommendation for existing deemed NTS entry points

4.8. Ofgem considers that over time these entry points should migrate to the same arrangements as new GDN entry points. However, Ofgem considers it important that the transition provides a reasonable time period for the entry points to prepare for the new arrangements, and preserves entry capacity rights already purchased at the entry points.

4.9. Currently there are no long term entry rights acquired for the Hatfield Moor and Wytch Farm sites. This might provide an opportunity for these two sites to migrate to the new arrangements from their expected commencement in October 2007 without existing purchases of entry capacity rights being undermined. However, without a change to the UNC, shippers could purchase rights for up to 15 years at these sites in the September 2006 entry capacity auctions. Ofgem would welcome views on the desirability of these entry points migrating to the new arrangements from October 2007.

4.10. At the Isle of Grain, shippers have bought long term entry rights at the November 2005 auction. Consideration needs to be given to how and over what timescale the GDN entry point at Isle of Grain could migrate to the new arrangements while preserving existing entry capacity rights. Ofgem would welcome views on the desirability and timescale for the GDN entry point at Isle of Grain migrating to the new arrangements.

4.11. Ofgem would welcome views as to whether it is appropriate for existing GDN entry points to migrate to the new arrangements proposed in Chapter 3. Ofgem would also welcome views as to how the transition should take place.

Key points

4.12. Ofgem considers that the three existing GDN entry points should over time migrate to the same contractual arrangements proposed for new DN entry points.

However, Ofgem also recognises the importance of preserving existing entry capacity rights at these entry points.

5. The interim arrangements for Holford storage facility

This chapter explains a proposed interim arrangement to allow Ineos Chlor to operate its new GDN entry point at Holford this autumn, while taking into account that the existing arrangements for GDN entry points are expected to change by October 2007.

Question 1: What are the views of interested parties to the interim arrangements described in this chapter to allow Ineos Chlor to operate its new GDN entry point at Holford commercially this autumn?

Introduction

5.1. Ofgem expects that changes will be made to the long term commercial and regulatory arrangements for GDN entry points by October 2007. For Ineos Chlor to start operating its Holford storage facility commercially this autumn, interim arrangements need to be implemented.

5.2. Ineos Chlor owns a salt cavity at Holford which connects to an NGG GDN at Warburton. Until November 2005, the site was being leased by NGG for diurnal storage purposes. Ineos Chlor subsequently took over the operations of its own salt cavity and intends to commence commercial storage operations by autumn 2006.

5.3. To facilitate this, an interim arrangement needs to be introduced that would allow Ineos Chlor to flow gas onto the system, while the long term GDN entry arrangements discussed in Chapter 3 are being developed. Ofgem's present view is that the interim arrangements should:

- be an adaptation of the arrangements currently in place for Hatfield Moor and Wytch Farm in order to allow access to the wholesale market and NBP trading and balancing;
- be time limited – should cease to have effect on 1 October 2007 when the long term GDN entry arrangements are expected to take effect;
- restrict the purchase of entry capacity rights to the short term only, thereby precluding the purchase of long term entry rights that could delay a transition to the new long term arrangements; and
- provide for the release of entry capacity rights that should not trigger any costs on the GDN or NTS, i.e. reinforcement and buy back costs.

5.4. With the above points in mind, Ofgem has considered two broad options. Both options are modified versions of the regime that governs the Hatfield Moor and Wytch Farm entry points. The Holford site would be a deemed NTS entry point in the NGG NTS licence, and given a baseline entry capacity and UCA. This would allow the site to trade gas at the NBP.

5.5. For both options the baseline entry capacity and UCA would be set to zero. These values seem pragmatic in order to facilitate an interim arrangement and avoid a calculation according to the methodology being used for new NTS entry points.

5.6. Both options would be implemented for one year from 1 October 2006 to 30 September 2007, when the new arrangements discussed in Chapter 3 are expected to take effect.

Option 1: Provision of interruptible entry rights

5.7. Under this approach, entry capacity would be provided on an interruptible basis on the day ahead, with the shipper paying entry commodity charges only. There would be no obligation for firm entry capacity to be released by NGG NTS before interruptible capacity was offered for sale. However, NGG NTS could choose to release non-obligated firm capacity, for example, as part of a bilateral agreement with Ineos Chlor. This would include terms and conditions for buy back costs, should they arise.

5.8. Currently NGG NTS can only release interruptible entry capacity after firm entry capacity has been offered for sale. So a change to the rules in this respect would be needed. There are no buy back exposures with this approach, unless NGG NTS voluntarily chooses to release firm capacity without having first reached a bilateral agreement with Ineos Chlor regarding buyback costs.

5.9. This arrangement is compatible with the business model of a storage site, which would look to flow gas onto the system during times of high demand and take gas off the system when demand is low.

Option 2: Provision of firm entry capacity rights on a non-obligated basis

5.10. Under this approach, NGG NTS would sell as much firm entry capacity as is available on the system without the need for reinforcement and any interruptible capacity it wanted to. As the entry capacity baseline is zero all firm capacity would be released on a non-obligated basis by NGG NTS, so would reflect expected availability given system conditions.

5.11. This approach would expose NGG NTS to the costs of buying back entry capacity – which could not be recovered through the price control - in the event that it could not provide firm capacity, and could not reach agreement with Ineos Chlor regarding buyback costs. Such costs are considered to be a real prospect given that the expected volume of Ineos Chlor's entry flows would make it a candidate for interruption. In contrast, there has been no need to constrain operations at Hatfield Moor and Wytch Farm despite both sites holding firm entry rights due to the much smaller volumes involved.

Proposed approach for the interim arrangements

5.12. In recognition of the potential costs that NGG NTS could incur under the approach of offering non-obligated firm capacity, Ofgem considers that of these two options the most appropriate arrangement for the Holford site would be to allow NGG NTS to offer interruptible capacity before offering firm capacity, with no obligation to

offer any firm capacity. This approach would require a modification to the UNC to allow shippers to acquire interruptible capacity rights at Holford even if firm capacity has not been offered for sale.

5.13. The interim arrangements described above differs from the arrangements for the current GDN entry points in three ways:

- the baseline and UCA are set pragmatically rather than being consistent with the methodology used to set these parameters for NTS entry points;
- interruptible capacity could be offered even if no firm capacity had been offered for sale; and
- capacity could only be offered up to 30 September 2007.

5.14. Ofgem considers that the proposal is reasonable when compared to the arrangements for existing GDN entry points. The lack of a requirement to offer firm capacity reflects Ofgem's view that a balance needs to be struck between dealing with a tight timetable in a pragmatic manner (i.e. not applying the methodologies used for NTS entry points) and protecting NGG NTS from incurring additional costs, including buyback costs. The time limitation for the offer of capacity is to prevent the interim arrangements from delaying the migration of the Holford site to the expected new arrangements proposed in Chapter 3.

5.15. The interims arrangement is applicable to the particular Holford GDN entry point in the particular circumstance of an expected change to the regulatory and commercial arrangements for GDN entry points. We would expect any potential new NTS entry points to apply the regulatory and commercial arrangements that are currently in place for existing NTS entry points as defined in the UNC and NGG NTS's gas transporters' licence.

Implementing the interim arrangements

5.16. The arrangement proposed above may be implemented through:

- a modification to NGG NTS's licence to deem Holford an NTS entry point and give it a zero entry capacity baseline and UCA;
- modifications to the UNC to allow interruptible capacity to be offered for Holford even if no firm capacity had been offered, and to prevent capacity being offered at Holford beyond September 2007; and
- a modification to the Offtake Arrangements Document (OAD) of the UNC to take account of the Holford entry point.

5.17. Ofgem considers the interim arrangements for the Holford storage facility to be an overall package of arrangements. As such, Ofgem does not intend to propose any modifications to NGG NTS's licence until it has considered responses to the consultation on this chapter and any relevant UNC modification proposals.

5.18. Ofgem would welcome views on the proposed interim arrangements to allow Ineos Chlor to operate its Holford storage facility commercially this autumn.

Key points

5.19. Ofgem considers that an interim arrangement is appropriate to allow commercial operation of the Ineos Chlor facility at Holford this autumn, while taking into account that the existing arrangements for GDN entry points are expected to change by October 2007.

5.20. Ofgem considers that the proposal set out above can be implemented to enable Ineos Chlor to operate this autumn. Ofgem seeks views on this approach and any other others which are consistent with this timeframe.

6. Next steps

Timetable

6.1. The proposed timetable for the development and implementation of the interim arrangements for Holford and long term commercial and regulatory arrangements is set out below:

- 21 July 2006 - Deadline for receiving responses to Chapter 5 only;
- 18 August 2006 - Deadline for receiving responses to the rest of the consultation;
- August/September 2006 - Ofgem will make a decision about whether to implement the interim arrangements for Holford and will start the process for giving effect to any proposal;
- Autumn 2006 - Ofgem publishes decision document for the long term commercial and regulatory arrangements, including proposals for any modifications to the GDNs' gas transporters' licences; and
- October 2007 - New commercial and regulatory arrangements for GDN entry points expected to be implemented.

6.2. The decision document will include a more detailed timetable for the process to implement the long term arrangements, including the timetable for existing GDN entry points to transition to these arrangements.

6.3. The process for responding to this consultation is set out in more detail in Appendix 2.

Appendix 1 - Summary Impact Assessment

Introduction

1.1. Under Section 5A of the Utilities Act 2000, Ofgem is required to carry out and publish an Impact Assessment (IA) when:

- it proposes to do anything for the purposes of, or in connection with, the carrying out of any function exercisable by it under or by virtue of Part 1 of either the Electricity Act 1989 or the Gas Act 1986; and
- it appears to Ofgem that the proposal is important.

1.2. Section 5A defines a proposal as important where its implementation would be likely to lead to one or more of the following:

- involves a major change in the activities carried out by the Authority;
- have a significant impact on persons engaging in the generation, transmission, distribution or supply of electricity and gas;
- have a significant impact on persons engaged in commercial activities connected with the generation, transmission, distribution or supply of electricity or gas;
- have a significant impact on the general public of Great Britain or part of Great Britain; or
- have significant effects on the environment.

1.3. Where a proposal is not considered as important, Ofgem would nonetheless endeavour to set out a summary of the impacts of the proposal and the reasons why Ofgem considers that an IA would not be required.

1.4. Ofgem considers that its' proposals to establish long term arrangements for new and existing GDN entry points are not important in the meaning set out above. In particular, the proposals are not expected to impose significant costs or have a significant impact on participants in the gas and electricity sectors, the general public or the environment.

1.5. Currently, there are only three existing entry points that are connected to GDNs and this is only expected to increase to five entry points over the next two years. Given the small number of GDN entry points involved and likely to be involved, Ofgem considers that it would be disproportionate to undertake an IA.

1.6. This appendix provides only a summary of the impacts, costs and benefits associated with the proposals. The proposals for the long term arrangements for GDN entry are given in Chapter 3.

Objectives and policy options

1.7. Ofgem's principal objective is to protect the interests of consumers present and future, wherever appropriate by promoting effective competition.

1.8. In light of these duties, the proposals set out in chapter 3 should promote a more efficient and economic use of the system and better facilitate security of supply needs.

1.9. There are two broad policy options in relation to the treatment of DN entry points:

- **Option 1 - the NTS approach** - Replicating the existing approach for new GDN entry points, by deeming them to be NTS entry points for commercial and regulatory purposes; and
- **Option 2 - Introduce new arrangements** - These arrangements would be based on the contractual approach discussed in Chapter 3.

1.10. Given the current lack of clarity about the commercial and regulatory arrangements for new GDN entry points, Ofgem does not consider that there is a credible "do nothing" option that could be assessed in the IA.

Impact on relevant areas

1.11. In assessing these proposals, Ofgem has considered their impact on competition in relevant markets, environment, health and safety, risks and uncertainties, as well as their potential distributional effects between and within groups of consumers. Ofgem has concluded that these initial proposals would have no or minimal impact on all of these areas.

Costs and benefits

Option 1

1.12. The provision of firm entry capacity as implied by a replication of the existing approach could be costly and inappropriate for new GDN entry points. For example, a storage operator may not want to flow gas onto the system at all times, but only during periods of high demand.

1.13. Furthermore, the potential costs of any reinforcement required in order to provide the firm capacity could be picked up by the GDN entry point, and if the costs were significant could deter the project from going ahead. These views were echoed by respondents who commented on the May 2005 consultation.

Option 2

1.14. Under option 2, there could be costs for Ofgem if we are called upon to determine any contractual disputes between the GDN and new GDN entry point.

This can be mitigated by clarifying the issues we would consider appropriate for determination by Ofgem.

1.15. In terms of the benefits, the introduction of a clear regulatory and commercial framework that this option would offer is expected to outweigh any associated costs. Respondents to the May 2005 consultation all supported the development of a clear framework based on the contractual approach which is set out in Chapter 3. The benefits of this approach would include the following:

- the new arrangements would better facilitate the decision to connect to the GDN rather than the NTS if it is deemed to be more efficient and economic to do so;
- the flexibility to tailor arrangements specific to each GDN entry point;
- provision of non-firm entry capacity based on demand levels, which would avoid the costs of paying for firm entry capacity; and
- encourage the entry of new gas storage operators which would have positive implications for security of supply.

Security of supply

1.16. Ofgem expects that the proposals to create a set of long term entry arrangements governing GDN entry points could facilitate the entry of new storage sites. This could have positive implications for security of supply in light of the role that storage sites can play in alleviating system constraints.

Review and compliance

1.17. Ofgem expects that any proposals to emerge from this review may lead to necessary changes to the licence conditions or industry codes. Such changes will follow the procedures set out in Standard Special Condition A2 of the GT licence with respect to licence changes and the modification rules with respect to the UNC.

Appendix 2 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses to the interim arrangements should be received by 21 July 2006, while responses to the rest of the document should be received by 18 August 2006. All responses should be sent to:

Indra Thillainathan
Gas Distribution
Ofgem
9 Millbank
London SW1P 3GE
Tel: 020 7901 7294

Indra.thillainathan@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website at www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Having considered the responses to this consultation, Ofgem intends to:

- make a decision in August/ September 2006 about whether to implement the modification to NGG NTS's gas transporters' licence and make modifications to the UNC to implement the interim arrangements for the Holford storage site to operate commercially this autumn;
- publish a decision document in the autumn 2006, including any proposed modifications to the GDN's GTs' licences to implement new long term commercial and regulatory arrangements for GDN entry points.

1.7. Any questions on this document should, in the first instance, be directed to:

Indra Thillainathan
Gas Distribution
Ofgem

020 7901 7294

Indra.thillainathan@ofgem.gov.uk

CHAPTER: Three

Question 1: Is a modification of the GDN's gas transporters' licence the best way for Ofgem to implement a contractual approach for new commercial and regulatory arrangements for GDN entry points?

Question 2: What are views of interested parties about the key issues relevant to GDN entry arrangements?

Question 3: Are there any further key issues not discussed in this document that should be considered?

CHAPTER: Four

Question 1: Is there any reason why the three existing GDN entry points should not in due course have the same commercial and regulatory arrangements as new GDN entry points?

Question 2: How should a timely transition to the new arrangements be facilitated while preserving existing entry capacity rights?

CHAPTER: Five

Question 1: What are the views of interested parties to the interim arrangements described in this chapter to allow Ineos Chlor to operate its new GDN entry point at Holford commercially this autumn?

Appendix 3 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments.

1.2. Please send your comments to:

Andrew MacFaul

Consultation Co-ordinator

Ofgem

9 Millbank

London

SW1P 3GE

andrew.macfaul@ofgem.gov.uk

Appendix 4 - The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.⁶

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly.⁷

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them;⁸ and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.⁹

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

6 entitled "Gas Supply" and "Electricity Supply" respectively.

7 However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

8 under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

9 The Authority may have regard to other descriptions of consumers.

- Promote efficiency and economy on the part of those licensed¹⁰ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation¹¹ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

¹⁰ or persons authorised by exemptions to carry on any activity.

¹¹ Council Regulation (EC) 1/2003

Appendix 5 - Glossary

B

Baseline

Baselines define the amount of capacity that the transmission licensee is obliged to release. Baselines also determine the levels above which incremental capacity is defined.

C

Capacity charges

These charges account for 50 per cent of the revenue recovered by GDNs from distribution use of system charges. Capacity charges are applied to the peak-day demand (in pence per peak day kWh per day).

Commodity charges

These charges account for 50 per cent of the revenue recovered by GDNs from distribution use of system charges. Commodity charges are applied to the annual demand (in pence per kWh).

D

Distribution Use of System Charges

Distribution use of system charges are levied by GDNs to gas shippers for the use of the distribution system to transport gas to the end user. They comprise capacity and commodity charges. Approximately 50 percent of the revenue recovered from use of system charges comes from capacity and 50 percent from commodity charges.

G

Gas Distribution Network (GDN)

GDNs transport gas from the NTS to final consumers and to connected system exit points. There are currently eight GDNs in Great Britain which comprise twelve LDZs.

L

Local Distribution Zone (LDZs)

LDZs are low pressure pipeline systems which deliver gas to final users and Independent Gas Transporters. There are twelve LDZs which take gas from the high pressure system transmission system for onward distribution at lower pressures.

N

National Transmission System (NTS)

National Grid's high pressure gas transmission system consists of more than 6.400 km of pipe carrying gas at pressures of up to 85 bar (85 times normal atmospheric pressure).

S

Storage Facility

Facility used for the storage of natural gas; usually a cavern carved out of natural salt domes or depleted natural gas reservoirs into which natural gas can be reinjected and produced with minimal loss.

U

Unit Cost Allowance (UCA)

A UCA, expressed in pence/kWh/day is an estimate of the unit cost of providing additional network capacity for an entry point on the NTS.

Uniform Network Code (UNC)

As of May 1 2005 the UNC replaced National Grid Gas' network Code as the contractual framework for the NTS, GDNs and system users.