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National Gas Emergency Service - 0800 111 999\* (24hrs) \*calls will be recorded and may be monitored

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Dear Indra,

# Response to Chapter 5 of New Entry Arrangements for Connecting to the Gas Distribution Network

The issues in this consultation affect both the transmission and distribution businesses of National Grid and hence we have worked together to develop the attached proposal for providing Holford with the ability to export gas in the gas year 2006/07. Whilst it is a joint proposal, for clarity we are both providing our own supporting comments; this response is on behalf of our distribution business.

We recognise that Distribution Network entry arrangements are still in a transitional state following network sales and the short timescales in which Holford wish to commence commercial operations. Accordingly, we can understand the proposal to modify the current DN entry arrangements, rather than seek to implement a long term solution. However, we believe that it will be possible to make some progress towards an enduring regime in these timescales, and that this is preferable to continuing with the current arrangements.

Our proposal is designed as an interim arrangement for one year. As such, we have sought to minimise change and the reform would require only a UNC modification. There would be no change to gas transporter licences and existing charging methodologies would be used. Furthermore, the proposal would use existing IT systems, processes and procedures.

### **Current UNC Arrangements**

Where gas flows directly into a DN (there are currently a number of such connections which may be grouped as on-shore fields and LNG boil-off connections), the UNC stipulates (TPD B1.2.8(a)) that a shipper causing gas to enter the Total System from one these connections is deemed to have used the NTS and, accordingly, is required to hold NTS Entry Capacity. These System Entry Points are listed in the NTS licence Capacity Statement, in the same way as actual NTS connections, such as the beach terminals and the Interconnector. Accordingly, all the provisions of UNC TPD Section B, including commercial activities such as capacity auctions and capacity buy-backs apply at these DN entry connections

Basically, whilst physically being attached to the Distribution Network, from a regulatory perspective and contractually, they are treated as being attached to the NTS.

Holford is a new type of system connection which may be classified as a combined System Exit / Entry Point. During its emptying cycle Holford storage facility would be classified as a Entry Point and shippers wishing to export gas to the Total System would be required to acquire NTS Entry Capacity

As with other System Entry Points connected to the DN, the quantity of capacity available would be specified in the NTS's Capacity Statement included in its licence.

### Proposal

To avoid this complexity, and to recognise the physical arrangements, it is proposed to vary paragraph B1.2.8(a) to exclude System Entry Points connected to a DN, which are not specified in the NTS's Licence Capacity Statement, from being deemed as using the NTS. The connection would still be categorised as a System Entry Point and, as such, gas entering from the connection would be allocated to a shipper, would be form part of its aggregate UDQI and would be available for trade at the NBP.

The System Entry Point would be required to have a Network Entry Agreement in accordance with Section I which would deal with the inter-operator arrangements such as restrictions on flow rates and the interruption of filling and emptying cycles. It is anticipated that System Point at Holford would have no firm capacity rights in respect of both the filling and the emptying parts of the cycle.

It is understood that other similarly located System Entry Points may wish to migrate to this regime in the fullness of time, but to de-link other such System Entry Points from NTS Entry Capacity would require more significant UNC and transporter licence modifications if firm capacity obligations were to transfer between transporter's licences.

### Proposed Charging Methodology

At present, distribution transportation charges are based primarily on the Supply Point Offtake Quantity (SOQ), Annual Quantity (AQ) and actual throughput offtaken for a Supply Point or Connected System Exit Point (CSEP). There are no distribution transportation charges relating to the entry of gas into the distribution system. Hence the charging regime can be summarised as:

- Connection Charge: payable by the developer, reflecting the cost of the physical connection to the existing system and any immediate reinforcement requirements. This is similar in principle to the arrangements for new gas demand.
- Exit Charge: for gas exiting the DN at Holford it is proposed to apply existing DN CSEP charges. For an interruptible customer (who does not pay capacity charges), this would only be the LDZ CSEP commodity charge.
- Entry Charge: at present no charges exist for gas entering the DN and it is not proposed to introduce one for the interim arrangements.

### Conclusions

The proposal that we have developed with the NTS appears to offer two advantages, it moves forward the development of DN entry, albeit to an interim stage, and it avoids the need for a change to the NTS licence. Adoption of this model would send a clear signal as to the direction in which arrangements are likely to move in the future and help to focus the debate concerning the detail of the enduring DN entry arrangements. Accordingly, we believe that this proposal would be a positive development and one that is achievable in the time scales by a modification to the UNC.

If you wish to discuss any of these comments any further, please do not hesitate to contact me.

Yours sincerely

#### By Email

Phil Lawton Distribution Regulation Manager

### National Grid plc

#### Joint proposal developed by NTS and UKD

#### Background

The issues raised in Ofgem's consultation document "New entry arrangements for connecting to the gas distribution network" (116/06) affect both National Grid's UK transmission and UK distribution businesses.

This is an alternative to Ofgem's proposals for the interim period, which has been jointly developed by these organisations.

#### Objectives

To provide Holford access to the system for a 1 year temporary period To minimise framework changes

- avoiding Licence changes (NTS & DN)
- avoiding charging methodology changes (NTS & DN)
- minimise requirements for regulatory effort/oversight (eg UCA setting)
- o to deliver a solution via implementation of a single, simple UNC modification proposal
- o to deliver a solution using existing IT systems, processes and procedures
- to minimise the risk of unanticipated impacts particularly with regard to information and regulatory reporting issues

### Proposal

The proposal would define a requirement for a UNC modification proposal. It's principle aim would be to do define that in respect of DN entry points not referenced in the NTS that NTS will not be responsible for allocating system entry rights but rather this is a matter for the relevant transporter.

The proposal is based on Holford requiring only interruptible entry and exit capacity in the interim period.

The proposal would regard the Holford facility as both a DN CSEP exit point (corresponding to the offtake of gas into the Holford facility (injection into Holford)) and a DN entry point (corresponding to the input of gas into the DN (withdrawal from Holford)).

The proposal is capable of implementation via existing IT system functionality, and current processes and procedures.

The NTS and DN transportation charging arrangements are consistent with the existing charging methodologies and so no consultation on changes to the existing methodologies for the interim period would be envisaged.

Furthermore the proposal is not envisaged to require either NTS or DN Licence amendment.

The following illustrate the financial consequences of the arrangements:

#### Holford exit treatment (injection into Holford) - DN CSEP approach for "system exit" purposes

		Charges	Comment
Capacity	LDZ System CSEP capacity	None	Service delivery via interruptible service

			anticipated so no DN capacity charges applicable
	LDZ Customer charge	None	No charge to be levied, as for other CSEPs
	NTS exit capacity	None	DN interruptible service and existing processes ensure no NTS exit capacity charges applicable
Commodity	LDZ System CSEP commodity	Yes	Charges levied on the basis of User Daily Quantity Output at CSEP
	NTS SO exit commodity charge	Yes	Charge levied on the basis of User Daily Quantity Output at CSEP

## Holford entry treatment (withdrawal from Holford)

		Charges	Comment
Capacity	DN entry capacity	None	interruptible entry service defined in connection arrangements – no transportation charges to be levied in interim period
	NTS entry capacity	None	Combination of DN entry arrangements and IT system meter configuration to ensure no NTS entry related charges apply in interim
Commodity	DN entry commodity	None	No charges to be levied in interim period
	NTS SO entry commodity charge	None	No charge to be levied in interim period

### Daily Balancing Regime Treatment

Nominations, physical flows and allocations treated in a similar way to any other contributions to (User Daily Quantity Input) UDQIs and (User Daily Quantity Output) UDQOs for the purposes of all balancing processes including demand attribution, User balancing and invoicing thereby ensuring "access to the NBP" and exposure to gas balancing payments/charges

## **DN Connection Agreement**

A DN Connection Agreement will also be required covering the one-off connection charge, operational and other requirements.