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Dear Indra,

### **New Entry Arrangements for Connecting to the Gas Distribution Network**

We welcome the opportunity to respond to Ofgem's proposals for new entry arrangements for connecting to the gas distribution network. We support the view that the current framework is no longer appropriate given the anticipated increase in DN entry points. We are, therefore, largely in support of Ofgem's proposed contractual approach, which should offer the required level of flexibility.

In particular, we strongly agree that it would not be appropriate to adopt the complex auction-based NTS entry arrangements on the DN network, for the reasons set out in our previous response and Ofgem's document. We consider that the NTS entry arrangements are unnecessarily complicated and disproportionate to the issues faced by the DNs

There is a risk that unnecessarily complicated arrangements could discourage future DN investment, particularly the development of storage facilities, which could play a valuable role in security of supply. Given the existing framework, we consider commercial arrangements to be all that are needed to put in place what is essentially a connection agreement. However, we also believe that it is important that this contractual approach should be kept as simple as possible.

In addition, we do not believe that DN entry arrangements should be looked at in isolation. We are of the view that DN entry should be considered alongside the reforms taking place in both the NTS offtake and DN interruption arrangements. Similarly, the entry arrangements need to fit alongside the existing exit arrangements, particularly in terms of user risk and commitment.

Please find attached our response to the specific questions. I hope this proves to be a useful contribution to your consultation process. Should you require any additional information or explanation, please do not hesitate to get in contact.

Yours sincerely,

Rob McDonald  
Director of Regulation.

**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?**

No. We do not believe that modifications to the gas transporters' licence are necessary to implement a contractual approach. Most of the necessary arrangements are largely in place already through, for example, the Network Entry Agreements, Operating Procedures and Advanced Reservation of Capacity Agreements (ARCAs). In addition, the licence already includes requirements not to discriminate. We therefore consider that a new licence requirement would merely result in more regulatory bureaucracy, for no benefit.

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

We support a simple approach that does not distort the decision of any potential new entry point between connecting to the GDN or NTS. A contractual approach, which looks at new entry applications on a case-by-case basis should be capable of meeting the requirements of all sites and shippers. We do not, therefore, support different arrangements for different sizes or types of site. We also believe that different arrangements for different sized sites could be perceived as discriminatory, could distort DN investment decisions and may have adverse consequences for certain customers.

If the decision is taken to implement the contractual approach through a modification to the DN licence, we believe that the licence modification should also enable the DN to seek determination from Ofgem should it be unable to reach agreement with the new entry point.

In order to give DNs the required certainty over new investments, we believe that there should be measures in place to provide adequate assurances relating to capacity requirements, start time and duration. To this end, we believe any reinforcement costs should be backed by an appropriate and proportionate user commitment in the ARCA.

We do not agree with Ofgem's expectation that DNs should "*seek to accommodate operational requirements of the new entry point that would not lead to it incurring any additional costs*". If a site applies for capacity that requires reinforcement, we are obliged to undertake that work – we do not understand what Ofgem is suggesting by this statement. The key point is that capacity will be driven by customer requirement and the contractual approach has the capability of providing the necessary flexibility to address this requirement.

We do not consider that there is a need for provisions in relation to the ability to buy back capacity. The contractual arrangements should set out any capacity entitlement, the customer should pay a cost-reflective charge for any necessary work and the DN would continue to provide that capacity in normal circumstances. We do not, therefore, believe that a separate buy-back scheme, which would result in unnecessary complexity, would be required. It might however be appropriate to consider DN entry points in the context of DN interruption reforms.

We do not support the suggestion to limit interruptible customers' payments to commodity charges. The non-payment of capacity charges is the very issue that caused Ofgem concern in reforming both the DN exit and interruption arrangements. As with exit, interruptible entry points are likely to utilise the capacity most of the time. Consequently, payments should reflect this.

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

Whilst we recognise that the scope of this consultation is limited to DN entry arrangements, we do not believe that it is appropriate to consider these arrangements in isolation given the interactions between DN entry arrangements and the reforms taking place in both the NTS offtake and DN interruption arrangements. We believe these should be considered in unison.

**4. 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?**

No. It seems appropriate that the existing DN entry points should migrate across to the new system. Given that the network is already suitably sized for existing GDN entry points, we believe that this should be a largely administrative exercise.

**5. How should a timely transition to the new arrangements be facilitated while preserving existing entry capacity rights?**

As noted in our response to (4), we do not believe that there should be any significant issues in migrating existing capacity rights to the new arrangements. Due to the flexibility benefits of a contractual arrangement, it should be possible to accommodate the specifics of the existing arrangements fairly easily.