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CC. National Grid Gas plc, Commission for
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Dear Avian

Approval of the amended Connected Systems Agreement (CSA) (now renamed into an Interconnection Agreement (IA)) between GNI (UK) Limited (GNI (UK)) and National Grid Gas (NGG) plc proposed by GNI (UK) pursuant to Standard Licence Condition (SLC) 3 of the gas interconnector licence.

GNI (UK)¹ submitted proposed amendments to the IA on 9 September 2015 to the Authority² for approval pursuant to Standard Licence Condition (SLC) 3 of the gas interconnector licence (the licence).³

This letter sets out our decision approving the proposed modified IA on the basis that the amendments to the IA are necessary to ensure compliance with relevant legally binding decisions of the European Commission and/or Agency for the Cooperation of Energy Regulators (ACER).

The amendments are proposed in order to comply with the following legally binding network codes required to be established pursuant to the Gas Regulation:⁴

- Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules (INT)
- Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks (BAL), and
- Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (CAM).

¹ GNI (UK) owns the gas interconnector between Moffat, in South West Scotland, and the interface between UK territorial Waters and Manx Waters, for which it holds a gas interconnector licence. The GNI (UK) interconnector is connected to the NGG system at Moffat and splits into two different pipes before leaving the Scottish mainland.

² Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we' and 'us' are used interchangeably in this letter.

³ The current version of the gas interconnector licence and SLCs can be found at <https://epr.ofgem.gov.uk>.

⁴ Regulation 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005.

Background

GNI (UK) entered into a CSA with NGG on 25 August 1998. The CSA relates to the connection between GNI (UK)'s and NGG's transmission systems at Moffat. One of GNI (UK)'s proposed changes is to rename the CSA to an IA.

SLC3 of GNI (UK)'s gas interconnector licence requires that GNI (UK) enters into such bilateral agreements as may be reasonably required by any relevant gas transporter. Such agreements, and any amendments to these agreements, must be provided by the licensee to the Authority for its approval. It further requires the licensee to take all steps within its power to make such changes to such agreements as may be necessary from time to time to comply with the Gas Regulation and to give full and timely effect to any relevant legally binding decision of ACER or the European Commission.

GNI (UK) and NGG have indicated that they wish to amend and restate the CSA and rename it into an IA. The proposed changes have been prompted primarily by the new obligations described above.

GNI (UK) proposes that the amended and restated IA will take effect on and from 1 October 2015 (although some of its provisions will not take effect until 1 November 2015).

Proposed Modifications

GNI (UK) proposes to make amendments to the IA to ensure compliance with the INT and with certain provisions of CAM and BAL. This follows consultation with network users on the relevant aspects of the proposed amended and restated IA.⁵ No responses were received to GNI (UK)'s consultation.

The proposed changes are summarised as follows:

- Updates to existing definitions as well as new terms to reflect the language used in the network codes.
- Changes to the amendment process to be compliant with INT and to set out more clearly the roles of GB and Irish regulatory authorities.
- Changes to the procedure for resolving disputes and, where necessary, expert determination.
- Substantial changes to the annexes to reflect the requirements of CAM, BAL and INT. These include new and amended text on flow profiles, rate changes, measurement, management of the Operational Balancing Account and capacity optimisation.⁶
- Changes throughout the IA to correct typographical errors and to reflect current terminology and practice.

These amendments are being made pursuant to the requirement in SLC 3 to comply with relevant EU legislation and decisions, as set out above.

INT, CAM and BAL are established pursuant to the Gas Regulation and are legally binding decisions of ACER and/or of the European Commission. GNI (UK) is therefore required to take all steps within its power to make such amendments to the CSA (renamed the IA) as may be necessary to ensure compliance with those network codes.

⁵ GNI (UK)'s consultation can be found at www2.nationalgrid.com/UK/Industry-information/Europe/Consultations/.

⁶ INT introduces a new allocation regime at interconnection points such that shippers' allocations will be equal to their nominations. Any difference between the allocated and actual measured volumes of gas will be managed by the TSOs through an 'Operational Balancing Account'.

Tripartite and Transportation Agreements

The CSA (renamed into the IA) is a bilateral agreement between NGG and GNI (UK). However the IA as it is drafted does not achieve full compliance with the requirements of the network codes on its own. For example, the IA does not set out rules for matching nominations (as required by INT Article 3(c)). This is because GNI (UK) does not have a commercial relationship with either GB or Irish shippers and hence does not receive nominations directly from them.

Instead capacity on GNI (UK)'s network has been allocated in its entirety to:

- Gas Networks Ireland (GNI) so that it can be combined with GNI (UK) interconnector capacity to be offered to shippers for access to the Irish entry-exit system at Moffat, and
- Premier Transmission Ltd (PTL) so that it can be combined with GNI (UK) interconnector capacity to be offered to shippers for access to the Northern Irish entry-exit system at Moffat.

To reflect the different relationships between the different transmission system operators (TSOs) connected to GNI (UK) they have entered into two tripartite agreements. One agreement is between NGG, GNI (UK) and GNI and another agreement is between NGG, GNI (UK) and PTL. These agreements cover the other processes that the TSOs must follow in order to be compliant with the relevant network codes. Two further agreements (the transportation agreements) also exist between GNI (UK) and GNI, and between GNI (UK) and PTL.

When taken as a suite of documents, the IA, the tripartite agreements and the transportation agreements facilitate GNI (UK) compliance with the requirements of the network codes.

Decision on the proposed modified IA

Upon review of the documents submitted on 9 September 2015 to Ofgem for approval, with the main features as summarised above, the Authority considers the proposed modified CSA (now renamed into the IA) to be compliant with relevant legally binding decisions of the European Commission and/or ACER.

The Authority has therefore decided to approve the proposed modified IA on the basis that the amendments are necessary to ensure compliance with relevant legally binding decisions of the European Commission and/or ACER.

For the avoidance of doubt this decision relates to the IA only. While the IA facilitates compliance with relevant legally binding decisions of the European Commission and/or ACER, it does not, on its own, deliver full compliance with the network codes. The tripartite and transportation agreements described above are therefore also required to demonstrate further compliance with the network codes. These have also been submitted to the Authority for approval and we will publish our decision relating to those agreements separately.

Yours sincerely



Rob Mills

Head of Gas Transmission, Gas Networks

Duly authorised on behalf of the Authority