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value for all customers*

Gas storage operators, gas distribution networks, gas transporters, gas shippers and other interested parties

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Dear colleague,

Interim arrangements for Holford storage facility

1. Ofgem published a consultation document¹ in July 2006 outlining our initial thoughts on the establishment of long term arrangements for entry points connecting to the gas distribution networks (GDNs). The consultation also set out proposed interim arrangements to allow one GDN connected storage site owned by Ineos Chlor at Holford to start commercial operations this autumn. Ofgem sought views on the interim arrangements by 21 July and welcomed alternative proposals that could be achieved within the same timetable.
2. This letter outlines the views of respondents on the interim arrangements for the storage site at Holford, including an alternative proposal put forward by two of the respondents. This letter also sets out Ofgem's views on the most appropriate way forward with respect to the interim arrangements.

Background

3. 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 National Grid Gas NTS (NGG NTS) in accordance with the Uniform Network Code (UNC) and under the framework of NGG NTS' gas transporter licence. The Offtake Arrangements Document (OAD) of the UNC governs the arrangements between NGG NTS and the GDNs for making capacity available at these entry points.
4. It is not clear that these arrangements provide an appropriate long term commercial and regulatory framework for GDN entry points. This issue has recently become more important given the requests from new gas storage operators wanting to connect their facilities to GDNs.

¹ New entry arrangements for connecting to the gas distribution network, Ofgem, 7 July 2006.

5. In order to address this issue, Ofgem is undertaking a consultation on establishing new long term entry arrangements for connecting to the GDN. Given that any such arrangement is unlikely to be implemented before October 2007, the consultation also proposes interim arrangements to allow the commercial operation of Ineos Chlor's storage facility at Holford this autumn.
6. The proposed interim arrangements would allow the storage facility to be a deemed NTS entry point, but would differ in some respects to the arrangements for current GDN entry points. Most notably by providing entry capacity rights on an interruptible basis. While the interim arrangements would offer a practical solution to allow Ineos Chlor to operate this autumn, it would be time limited and would cease to have effect when any long term entry arrangements are implemented.

Respondents' views

7. Two of the four respondents who commented on Ofgem's proposed interim arrangements supported the approach as set out in the document. However, while NGG NTS and National Grid Distribution (NGD) supported the need to have an interim arrangement based on the provision of interruptible entry rights, both disagreed with Ofgem's proposed method for achieving this.
8. Specifically, neither party considered it necessary to deem Holford an NTS entry point in order for it to gain access to the National Balancing Point (NBP). They also considered that the complexities associated with the provision of NTS entry capacity (i.e. the need to modify the NTS licence) could not be justified given the minimal impact that Holford is expected to have on the physical flows in the NTS and on delivering investment signals to the NTS during the interim period.
9. Given their concerns regarding the deemed NTS entry approach, NGG NTS and NGD put forward an alternative proposal based on treating Holford as a GDN connected entry point. The main features of the proposed alternative approach are as follows:
 - (i) provision of entry capacity rights on an interruptible basis;
 - (ii) installation of an LDZ offtake meter and LDZ entry meter to address injections and withdrawals of gas to and from the storage facility;
 - (iii) use of existing NTS and DN charging methodologies;
 - (iv) NTS transportation charges: SO exit commodity charge would be the only applicable NTS charge;
 - (v) DN transportation charges: CSEP exit commodity charge would be the only applicable DN charge;
 - (vi) a connection charge may be payable by the developer to reflect physical connections costs and any reinforcement;
 - (vii) the entry point would be required to have a Network Entry Agreement to deal with operational arrangements; and
 - (viii) shippers would be able to trade gas at the NBP.
10. NGG NTS and NGD considers that an approach that treats Holford as a GDN entry point requires only a modification to the UNC and as such would be less complex to implement than Ofgem's deemed NTS entry point approach. In addition, NGG NTS

and NGD consider that their approach could be accommodated using existing IT systems, processes and procedures.

Ofgem's views

11. On 9 August 2006 NGG raised UNC Modification Proposal 0105: Commercial Arrangements for combined DN Exit / Entry Points. The purpose of UNC Modification Proposal 0105 is to implement the proposed alternative approach described above. Ofgem intends to consider the proposed alternative approach in the context of considering UNC Modification Proposal 0105.
12. Ofgem does not consider it appropriate to make a final decision with respect to the interim arrangements until it has considered UNC Modification Proposal 0105. However, deferral of a final decision with respect to the interim arrangements should not be interpreted in any way as fettering the Authority's discretion with respect to UNC Modification Proposal 0105.
13. Please contact me if you have any questions relating to this letter.

Yours sincerely

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