Initial Modification Report No.2

Incorporation of the new Balancing Contract Arrangements

30th September 2016

Please find below Initial Modification Report No.2 raised by West Transmission Ltd (WTL) as required under Section 2 and 3 of the WTL Transportation Code Modification Rules. The proposed changes for this Modification Proposal No.2 are shown in section H of this Initial Modification Report.

A Description of the nature and purpose of the modification

This proposal is being made to incorporate the arrangements for new balancing contracts, including adjustments for charging and rules for the utilisation of balancing contracts.

B How the modification better facilitates the relevant objective

The Relevant Objective, (condition 2.4 of the WTL Licence) will be better facilitated by the Licensee’s Network Code as a result of this modification. This set of changes will contribute to the secure, safe, reliable, efficient and economic development and maintenance of the Network by incorporating the new contract arrangements for Balancing Gas.

C The clauses of the Transportation Code that require amendment

This proposal includes changes to section 5 of the WTL Code as shown below.

D Impact on other Designated Pipeline Operator’s Network Codes:

WTL has worked with PTL, BGTL and GNI (UK) to develop a co-ordinated approach to the Codes. GNI (UK) and PTL will be publishing a corresponding Modification Proposal which closely mirrors the changes contained in this Code Modification Proposal for the WTL Code. Because the arrangements in the BGTL Code refer to the PTL Code arrangements it is not necessary to amend the BGTL Code.

E The date proposed for implementation

PTL suggests that the proposed modification is implemented in November 2016.

F How to Respond

Please send responses no later than 28th October 2016 to:

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Further Information on the Modification Proposal

Introduction

The text for this Modification Proposal has been developed following the implementation of the new tender process for Balancing Gas in 2016. The NI Network Operators have been procuring Balancing Gas on an annual basis for many years, but this year have proposed a new form of contract in order to update the arrangements to better comply with the requirements of the EU Gas Balancing Regulation 312/2004 and in line with their plans set out in the Interim Measures Report of 2015.

Proposed Changes

The changes proposed in this Modification Proposal are primarily to include the charging adjustments associated with locational Balancing Gas Sells, and to set out for Shippers how the NI Network Operators will utilise Balancing Gas Contracts on a day to day basis. They are contained in section 5, with just one cross reference change required elsewhere in the Code, along with some relevant new defined terms. Some consequential changes to the existing text in section 5 are required to enable the addition of the new material.

All of the proposed changes are shown in the Proposed Text which follows:
Proposed Text

Amend section 5 to read as follows:

5. BALANCING AND SHRINKAGE GAS

5.1 Definitions

In this Code;

(a) "Shrinkage Gas" is gas, of any amount, which is lost or otherwise unaccounted for, from the West Transmission System or any part of the West Transmission System;

(b) “Balancing Gas” is gas reasonably required to achieve the physical balance of the West Transmission System and or gas reasonably required to achieve the physical balance of the NI Network or any localised part thereof.

5.2 Balancing Gas Procurement

5.2.1 The NI Network Operators, in accordance with the NINOA, one or more of the NI Network Operators (the “Procuring NI Network Operators”) shall procure the purchase of or procure the disposal of gas reasonably required to achieve the physical balance of the West Transmission System and / or gas reasonably required to achieve the physical balance of the NI Network or any localised part thereof (“Balancing Gas”) including that which is considered reasonably necessary to provide gas to make up Shrinkage Gas provided however nothing herein shall prevent the Transporter from time to time purchasing or procuring the purchase of or disposing or procuring the disposal of such gas as may be reasonably necessary with a view to achieving a physical balance of gas in respect of the West Transmission System.

5.2.2 The Procuring NI Network Operators shall use reasonable endeavours to procure the purchase and disposal of Balancing Gas upon the most competitive terms and conditions reasonably available.

5.2.3 In this Code:

(a) “Balancing Gas Services” means services made available to the Procuring NI Network Operators which enables them to purchase or sell Balancing Gas, as required for any Gas Flow Day, from time to time;

(b) “Balancing Gas Contract” means a contract for the purchase or sale of Balancing Gas as described in section 5.2.4;

(c) “Balancing Gas Framework Agreement” means either the Balancing Gas Sell Framework Agreement or the Balancing Gas Buy Framework Agreement and “Balancing Gas Framework Agreements” means both of them;
(d) “Balancing Gas Buy Framework Agreement” means a framework agreement for the purchase of Balancing Gas for the NI Network issued as a result of a Tender;

(e) “Balancing Gas Sell Framework Agreement” means a framework agreement for the sale of Balancing Gas for the NI Network issued as a result of a Tender;

(f) “Balancing Gas Provider” means a Framework Member or a party who provides Balancing Gas Services to the Procuring NI Network Operators pursuant to a Balancing Gas Contract entered into in accordance with section 5.2.7 of this Code;

(g) “Framework Member” means a Shipper or another party which is a party to a Balancing Gas Framework Agreement;

(h) “Tender” means an annual tender procedure carried out by the Procuring NI Network Operators pursuant to the NINOA to procure Balancing Gas Services;

(i) “ Ranked Order” means the order in which Balancing Gas Contracts have been awarded in respect of a given Gas Year pursuant to the arrangements in a Tender.

5.2.4 For the purposes of this Code, a Balancing Gas Contract may be any of the following:

(a) a “Non-locational Balancing Gas Buy Contract” is a Balancing Gas Contract for the purchase of Balancing Gas at the Trading Point;

(b) a “Locational (Moffat) Balancing Gas Buy Contract” is a Balancing Gas Contract for the purchase of Balancing Gas at the Moffat Entry Point;

(c) a “Locational (Moffat) Balancing Gas Buy Contract for a non-Shipper” is a Balancing Gas Contract with a party who is not a Shipper for the purchase of Balancing Gas at the Moffat Entry Point;

(d) a “Non-locational Balancing Gas Sell Contract” is a Balancing Gas Contract for the sale of Balancing Gas at the Trading Point;

(e) a “Locational (Moffat) Balancing Gas Sell Contract” is a Balancing Gas Contract for the sale of Balancing Gas at the Moffat Entry Point;

(f) a “Locational (Combined) Balancing Gas Sell Contract” is a Balancing Gas Contract for the sale of Balancing Gas at the Moffat Entry Point combined with a reduction in nominated flow at an NI Network Exit Point;

(g) any other form of contract that Premier Transmission or the Procuring NI Network Operators consider appropriate from time to time.

5.2.5 The Procuring NI Network Operators shall, in accordance with the NINOA, conduct an annual Tender for the procurement of Balancing Gas Services as a result of which parties, including Shippers, may become members of one or both of the Balancing Gas Framework Agreements.
5.2.6 Under the Balancing Gas Framework Agreements, one or a number of Balancing Gas Contracts will be entered into between the Procuring NI Network Operators and the Framework Members.

5.2.7 Nothing herein shall prevent the Transporter or the Procuring NI Network Operators from time to time procuring Balancing Gas Services, as may be reasonably necessary to achieve the physical balance of the West Transmission System or the NI Network as a whole by means other than a Tender and using whatever form of Balancing Gas Contract they deem appropriate.

5.3 Operational use of Balancing Gas Contracts

5.3.1 This section 5.3 sets out how Balancing Gas Contracts will be utilised on any given Gas Flow Day.

5.3.2 Where Balancing Gas Services have been procured by means other than a Tender, for the purposes of this section 5.3 the Procuring NI Network Operators shall treat any such Balancing Gas Contract as though it has the last place in the Ranked Order including where the provisions of section 5.3.8 have been applied.

5.3.3 When calling on Balancing Gas Contracts on any given Gas Flow Day, subject to section 5.3.4, the Procuring NI Network Operators intend to utilise the Balancing Gas Contracts in accordance with the Ranked Order so that:

(a) the first-ranked Balancing Gas Contract shall be called on up to the maximum quantity of Balancing Gas available for sale or purchase (as the case may be) under that Balancing Gas Contract;

(b) if there is a further requirement for Balancing Gas, the second-ranked Balancing Gas Contract shall be called on up to the maximum quantity of Balancing Gas available for sale or purchase (as the case may be) under that Balancing Gas Contract; and

so on, utilising the maximum quantity of Balancing Gas specified in each Balancing Gas Contract in Ranked Order.

5.3.4 Notwithstanding section 5.3.3 above, the Procuring NI Network Operators shall not be required to utilise Balancing Gas Contracts in the Ranked Order in the following operational circumstances:

(a) when it is preferable for the Procuring NI Network Operators due to a time dependent requirement to alter pressures on the NI Network, to call on one particular Balancing Gas Contract pursuant to which a large quantity of Balancing Gas can be purchased or sold;

(b) when the location of the balancing action is a priority; and

(c) any other operational reason where the Procuring NI Network Operators, acting as Reasonable and Prudent Operators, consider it necessary; and
in such circumstances, the order in which Balancing Gas Contracts are utilised is entirely at the discretion of the Procuring NI Network Operators.

5.3.5 The relevant Procuring NI Network Operator will communicate with the relevant Balancing Gas Provider to request the purchase or sale of Balancing Gas on any given Gas Flow Day in accordance with the terms of its Balancing Gas Contract.

5.3.6 If a Balancing Gas Provider is unable to take delivery of or make delivery of (as the case may be) the full quantity of Balancing Gas requested by the relevant Procuring NI Network Operator in accordance with a Balancing Gas Contract, the Procuring NI Network Operators shall call on the next-ranked Balancing Gas Contract in the Ranked Order.

5.3.7 If all the Balancing Gas Contracts have been called upon in accordance with section 5.3.3 and there is still an outstanding requirement for Balancing Gas:

(a) the Procuring NI Network Operators will return to the top of the Ranked Order and proceed down the Balancing Gas Providers who initially were unable to take delivery of or make delivery of (as the case may be) the maximum quantity of Balancing Gas pursuant to the relevant Balancing Gas Contract, and request each such Balancing Gas Provider to specify what, if any, quantity (which should be more than the minimum contract quantity set out in the Balancing Gas Contract) it is able to take delivery of or make delivery of (as the case may be), and again proceed down the Ranked Order utilising the available quantities; and

(b) if this is still insufficient, then the Procuring NI Network Operators shall be entitled to:

   (i) request Balancing Gas Providers who have not been able to take delivery of or make delivery of (as the case may be) quantities requested (in Ranked Order) to confirm whether they can offer a quantity less than the minimum contract quantity (as set out in the relevant Balancing Gas Contract); and/or

   (ii) make day-ahead requests for Balancing Gas (starting at the top of the Ranked Order), again, in both cases, utilising the Ranked Order, in order to ensure that the requirement for Balancing Gas is met.

5.3.8 Failure to take delivery of or make delivery of (as the case may be) Balancing Gas when requested constitutes grounds for termination of a Framework Member’s Balancing Gas Contract in accordance with the terms of the Balancing Gas Contract. In addition to the termination rights arising under the Balancing Gas Contracts, that failure to take delivery of or make delivery of Balancing Gas (as the case may be) shall entitle the Procuring NI Network Operators in each case at their sole discretion, to put any such Framework Member’s Balancing Gas Contract (and any other contracts that the party may hold) to the bottom of the Ranked Order (but above any Balancing Gas Contracts procured by means other than a Tender) for a period up to the remaining duration of the Balancing Gas Framework Agreement. A return to the Balancing Gas Contract’s original position in the Ranked Order shall be at the discretion of the Procuring NI Network Operators.
5.3.9 Where, pursuant to section 5.3.8, the Procuring NI Network Operators move a Balancing Gas Contract to the bottom of the Ranked Order, the relevant Procuring NI Network Operator will inform the relevant Framework Member accordingly.

5.3.10 For the avoidance of doubt, nothing in section 5.3.8 and 5.3.9 shall affect the right of the relevant Procuring NI Network Operator to terminate a Framework Member’s Balancing Gas Contract for a failure to take delivery of or make delivery of Balancing Gas (as the case may be) when so requested in accordance with the terms of the Balancing Gas Contract.

5.3.11 Failure to take delivery of or make delivery of Balancing Gas (as the case may be) when requested may affect a Balancing Gas Provider’s ability to submit tenders in response to future competitive tendering procedures conducted by any of the NI Network Operators in relation to the procurement of Balancing Gas Services.

5.4 Charging Adjustments for locational Balancing Gas sales

5.4.1 In this Code:

(a) a “Sell Provider” is a Shipper that is a member of the Balancing Gas Sell Framework Agreement;

(b) a “Contract Sale Nomination” is a notice submitted by the relevant Procuring NI Network Operator to a Sell Provider notifying the Sell Provider of the requirement to take delivery of Balancing Gas in respect of a Gas Flow Day;

(c) the “Contract Sale Quantity” is the quantity of Balancing Gas, as determined by a Balancing Gas Contract, which has been sold by the relevant Procuring NI Network Operator to the Sell Provider in respect of a given Gas Flow Day.

5.4.2 For the purposes of this Code, where Balancing Gas Services for the sale of Balancing Gas have been procured by means other than a Tender pursuant to section 5.2.7 of this Code, references to a Sell Provider shall include the Shipper which is party to such Balancing Gas Contract and references to Contract Sale Nomination and Contract Sale Quantity shall be construed accordingly.

5.4.3 In respect of a Gas Flow Day, where a Sell Provider receives one or more Contract Sale Nominations and undertakes the necessary transactions to take delivery of the relevant quantity of Balancing Gas in accordance with its Balancing Gas Contract, certain adjustments shall be made by Premier Transmission for certain charging purposes, in accordance with this section 5.4 and the PTL Transportation Code.

5.4.4 Where, under a Locational (Moffat) Balancing Gas Sell Contract, a Sell Provider has taken delivery of a Contract Sale Quantity in respect of a Gas Flow Day:

(a) for the sole purpose of determining the Aggregate NI Imbalance of the Sell Provider for that Gas Flow Day, its’ Aggregate NI Entry Allocation determined in accordance with
section 3.4.2 shall be adjusted by adding the whole of the Contract Sale Quantity to the 
Aggregate NI Entry Allocation; and

(b) for the avoidance of doubt, for the purpose of calculating PS Transmission Amounts 
payable by the Sell Provider in respect of the Gas Flow Day, the Sell Provider’s Aggregate 
NI Entry Allocation shall be determined in accordance with section 3.4.2 with no 
adjustment pursuant to this section 5.4.

5.4.5 Where, under a Locational (Combined) Balancing Gas Sell Contract, a Sell Provider has taken 
delivery of a Contract Sale Quantity in respect of a Gas Flow Day at an NI Network Exit Point:

(a) the Exit Quantity determined in accordance with section 9.4 which is to be allocated to 
Shippers (including the Sell Provider) at the NI Network Exit Point pursuant to sections 
3.5, 3.6, 3.7, 3.8 and (where applicable) 3.9 in respect of the Gas Flow Day shall be 
adjusted by deducting the whole of the quantity of the Contract Sale Quantity from the 
Exit Quantity;

(b) for the sole purpose of determining the PS Transmission Amounts payable by the Sell 
Provider for that Gas Flow Day, its’ Exit Allocation at the NI Network Exit Point determined 
in accordance with sections 3.5, 3.6, 3.7, 3.8 and 3.9 (as applicable) shall be adjusted by 
adding the whole of the Contract Sale Quantity to such Exit Allocation; and

(c) for the avoidance of doubt, for the purpose of calculating the Aggregate NI Imbalance of 
the Sell Provider in respect of the Gas Flow Day, the Sell Provider’s Aggregate NI Exit 
Allocation shall be determined in accordance with section 3.10.2 with no adjustment 
pursuant to section 5.4 (b).

5.4.6 For the avoidance of doubt, where Balancing Gas is sold pursuant to a Non-locational Balancing 
Gas Sell Contract there shall be no adjustments made for charging purposes pursuant to this 
section 5.4.

5.53 NI Postalised Network Disbursement Bank Account

5.53.1 Premier Transmission shall procure the set up and operation of the NI Postalised Network 
Disbursement Bank Account and shall procure the administration of the NI Postalised Network 
Disbursement Bank Account in accordance with the Postalised Network Disbursement Procedure 
established pursuant to the NINOA. Premier Transmission shall in respect of each Month:

(a) pay into the NI Postalised Network Disbursement Bank Account:

(i) all Imbalance Charges, Scheduling Charges and Unauthorised Flow Charges paid 
by each Shipper;

(ii) all monies received from the sale of Balancing Gas;

(iii) monies received from a Shipper in respect of the costs and expenses of the 
Verifying Accountant in accordance with section 6;
(iv) Disbursement Amounts received from Shippers;
(v) any interest received in respect of payments required to be paid into the NI Postalised Network Disbursement Bank Account; and
(vi) any other monies which Premier Transmission reasonably determines should be credited thereto.

(b) pay from the NI Postalised Network Disbursement Bank Account:

(i) all Imbalance Charges payable to each Shipper;
(ii) all monies paid for the purchase of Balancing Gas;
(iii) all monies to be paid as a result of the determination of a Verifying Accountant under section 6;
(iv) the costs and expenses of the Verifying Accountant in accordance with section 6;
(v) all costs of administration of the NI Postalised Network Disbursement Bank Account and/or administration of the Postalised Network Disbursement Procedure;
(vi) any interest payable in respect of the NI Postalised Network Disbursement Bank Account or in respect of amounts to be discharged therefrom;
(vii) Disbursement Amounts payable to Shippers; and
(viii) any other monies which Premier Transmission reasonably determines should be so debited.

5.35.2 The Disbursement Amount payable to or by each Shipper shall be calculated in accordance with section 5.6.8 and the Postalised Network Disbursement Procedure.

5.46 Provision of information relating to Balancing Gas and Shrinkage Gas

5.46.1 The Transporter shall notify each Shipper, after each Gas Year, in the Ten Year Statement of:

(a) the quantity and cost of the Balancing Gas purchased or sold in that Gas Year;
(b) its estimate, acting as a Reasonable and Prudent Operator, of what proportion of such Balancing Gas was Shrinkage Gas; and
(c) its estimate, acting as a Reasonable and Prudent Operator, of the level of Shrinkage Gas in the next Gas Year.

5.46.2 The Transporter shall notify each Shipper after each Month of the quantity, cost and date of each sale and purchase of Balancing Gas on the NI Network in that Month.
5.75 Shipping Balancing Gas

5.7.1 Notwithstanding any other provision of this Code the Transporter may, in respect of any Balancing Gas which the Transporter shall ship on the West Transmission System:

(a) enter a Nomination and/or Renomination;

(b) be deemed to receive an Initial Exit Allocation and Final Exit Allocation; and

(c) be deemed to be liable for or make claims for Off-Spec Gas or Non-Compliant Gas,

in accordance with the relevant section of this Code as though the Transporter were a Shipper, but solely for such purposes provided that the Transporter will not be liable for PS Transmission Amounts under this Code or PS Code Charges payable to Premier Transmission pursuant to the PTL Transportation Code for gas nominated pursuant to this section 5.75.

5.68 Calculation of Disbursement Amounts

5.68.1 Disbursement Amounts shall be calculated and invoiced by Premier Transmission in accordance with this section 5.6-8, subject to section 5.4, and the PTL Transportation Code. For the purposes of this Code, in respect of each Month:

(a) a Shipper’s “Aggregate Throughput” shall be determined as the sum of a Shipper’s Aggregate NI Entry Allocations and the Shipper’s Aggregate NI Exit Allocations for that Month;

(b) the “Total System Aggregate Throughput” shall be determined as the sum of all Shippers’ Aggregate NI Entry Allocations and all Shippers’ Aggregate NI Exit Allocations for that Month; and

(c) for each Shipper, a “Disbursement Ratio” shall be determined as:

\[
\text{Disbursement Ratio}_{\text{Shipper}} = \frac{\text{Aggregate Throughput}_{\text{Shipper}}}{\text{Total System Aggregate Throughput}}
\]

(d) “Balancing Gas Costs” means the costs (or as the case may be, revenues) associated with the purchase or disposal-sale of Balancing Gas in accordance with this section 5.6.2.

5.68.2 For each Shipper, in respect of each Month, a “Disbursement Amount” (payable from or payable to a Shipper) shall be determined as the sum of:

(a) net \( \sum \) Imbalance Charges \( \times \) Disbursement Ratio \( \text{Shipper} \)

(b) \( \sum \) Scheduling Charges \( \times \) Disbursement Ratio \( \text{Shipper} \)
(c) $\sum$Unauthorised Flow Charges x Disbursement Ratio Shipper

(d) net $\sum$Balancing Gas Costs x Disbursement Ratio Shipper

where, in each case, the totals are for all shippers on the NI Network for the preceding Month and charge amounts shall be calculated including VAT on the sum of the Disbursement Amount.

Amend section 6.11.7 to read as follows:

6.11.7 If the Verifying Accountant determines that the Shortfall in Price is:

(a) more than £2,000, Premier Transmission shall, pursuant to the PTL Transportation Code, pay to the relevant Shipper the Shortfall in Price from the NI Postalised Network Disbursement Bank Account (as though it were monies paid by Premier Transmission to purchase Balancing Gas in accordance with section 5.53.1(b)(ii)); or

(b) less than £2,000, the relevant Shipper shall:

(i) receive no payment in respect of the Shortfall in Price; and

(ii) pay to the NI Postalised Network Disbursement Bank Account an amount equal to the costs and expenses of the Verifying Accountant.
Amend Appendix 1 to include new terms (and modify existing terms) to read as shown in the list below:

“Aggregate Throughput” has the meaning given to it in section 5.68.1(a);

“Balancing Gas” has the meaning given to it in section 5.1(b);

“Balancing Gas Buy Framework Agreement” has the meaning given to it in section 5.2.3(d);

“Balancing Gas Contract” has the meaning given to it in section 5.2.3(b);

“Balancing Gas Costs” has the meaning given to it in section 5.86.1(d);

“Balancing Gas Framework Agreement” has the meaning given to it in section 5.2.3(c);

“Balancing Gas Provider” has the meaning given to it in section 5.2.3(f);

“Balancing Gas Sell Framework Agreement” has the meaning given to it in section 5.2.3(e);

“Balancing Gas Services” has the meaning given to it in section 5.2.3(a);

“Contract Sale Nomination” has the meaning given to it in section 5.4.1(b);

“Contract Sale Quantity” has the meaning given to it in section 5.4.1(c);

“Disbursement Amount” has the meaning given to it in section 5.86.2 and “Disbursement Amounts” shall be construed accordingly;

“Disbursement Ratio” has the meaning given to it in section 5.86.1(c);

“Framework Member” has the meaning given to it in section 5.2.3(g) and “Framework Members” shall be construed accordingly;

“Locational (Combined) Balancing Gas Sell Contract” has the meaning given to it in section 5.2.4(f);

“Locational (Moffat) Balancing Gas Buy Contract” has the meaning given to it in section 5.2.4(b);

“Locational (Moffat) Balancing Gas Buy Contract for a non-Shipper” has the meaning given to it in section 5.2.4(c);

“Locational (Moffat) Balancing Gas Sell Contract” has the meaning given to it in section 5.2.4(e);
“NI Postalised Network Disbursement Bank Account” means a separate bank account set up by Premier Transmission pursuant to the NINOA, into which and from which Premier Transmission shall pay the amounts detailed in Section 5.4 of this Code in accordance with the Postalised Network Disbursement Procedure;

“Non-locational Balancing Gas Buy Contract” has the meaning given to it in section 5.2.4(a);

“Non-locational Balancing Gas Sell Contract” has the meaning given to it in section 5.2.4(d);

“Procuring NI Network Operators” has the meaning given to it in section 5.2.1;

“Ranked Order” has the meaning given to it in section 5.2.3(i);

“Sell Provider” has the meaning given to it in section 5.4.1(a);

“Shrinkage Gas” has the meaning given to it in section 5.1(b);

“Tender” has the meaning given to it in section 5.2.3(h);

"Total System Aggregate Throughput” has the meaning given to it in section 5.6.1(b);