

CLAIMS VALIDATION SERVICES LIMITED (“CVSL”)

ARRANGEMENTS RELATING TO CLAIMS VALIDATION SERVICES

SUMMARY FOR NEW PRINCIPALS

(EDITED VERSION FOR ENTRY POINT OPERATORS/SUPPLIERS)

1. Introduction

This Summary For New Principals is a very brief overview of a number of complex agreements that in turn have been subject to a number of amendments over an eight year period. It gives a high level introduction to the claims validation arrangements, but it has no legal force, and reading it is not a substitute for reading the agreements themselves. Any Principal or acceding Principal should therefore study the agreements carefully, as it is the provisions of the agreements which determine the rights and obligations of the parties, not this document.

The key agreements referred to in this Summary are:

- a) the Claims Validation Services Agreement (“CVSA”) - described briefly in paragraph 8 below;
- b) the Claims Validation Agency Agreement (“CVAA”) - described briefly in paragraph 9 below; and
- c) the Claims Validation Information Agreement (“CVIA”) - described briefly in paragraph 10 below.

2. Background

Section E.2 of the Network Code deals with arrangements for determination of each shipper's User Daily Quantity Input (“UDQI”) at each System Entry Point, and spells out the requirement for Entry Allocation Statements (“EASs”) to be submitted to Transco. The Network Code requires the aggregate of the quantities stated in EASs to exactly match the Entry Point Daily Quantity Delivered (“DQ”) for the System Entry Point concerned, failing which the UDQI for each shipper is determined in proportion to the shippers' respective Nominations. Nominations are the means by which each shipper advises Transco how much gas it intends to deliver at a particular System Entry Point on a particular gas flow day.

In order to facilitate the practicalities of ensuring that the sum of the quantities stated in EASs exactly equals the DQ, an organisation is required to act on behalf of all shippers, in order to validate their respective claims, to resolve any difference between aggregate claims and the DQ, and to submit EASs to Transco. CVSL was incorporated to appoint one or more agents to fulfil this role on behalf of shippers, and the relationship between CVSL and the "Principals" (who are the shippers and traders of gas at System Entry Points) is governed by the CVSA, dated 29th February 1996. Additionally, mutual co-operation of Principals through CVSL ensures compliance with relevant conditions of the Gas Shipper's Licence.

3. CVSL

CVSL is a non-profit making company, limited by guarantee. Pursuant to the CVSA it appoints a claims validation agent (“CVA”) to submit EASs to Transco for all shipper-Principals that

claim entitlement to gas delivered at the main System Entry Points (storage and onshore gas fields are excluded). There are some seventy Principals in number, of which approximately two-thirds are Members of CVSL. In the event of CVSL's insolvency, each Member is liable to creditors in an amount not exceeding £100.

Under the terms of the CVSA, CVSL is required (on behalf of Principals) to ensure that a CVA is appointed at all times for the following entry terminals (which each comprise a number of System Entry Points):

Bacton
Theddlethorpe
Easington/Dimlington
Teesside
St. Fergus.
Barrow
Grain LNG Terminal

A CVA is appointed generally in accordance with the provisions of a generic Claims Validation Agency Agreement, the terms of which are prescribed and set out in a schedule to the CVSA. Currently one CVA, Gas Management Services Limited ("GMSL"), is appointed for all relevant System Entry Points in accordance with the CVAA dated 29th February 1996.

CVSL is additionally party to the CVIA, dated 30th September 1998, between CVSL, Principals, Suppliers (mostly upstream producers) and Entry Point Operators. The CVIA provides for information to be submitted to the CVA in relation to allocations for offshore fields and other facilities delivering to the above System Entry Points, including the Bacton-Zeebrugge Interconnector and Grain LNG Terminal.

4. Accession Process for New Principals

Section Deleted

5. IT issues for New Principals

Section Deleted

6. Charges to Principals

Section deleted

7. Claims Validation Overview

The claims validation process reconciles shipper claims and producer statements of gas disposals to the quantity of gas determined by Transco as entering the NTS at a System Entry Point on a gas flow day in kWh (the "DQ"). It also serves to match individual trades where the transfer of quantities occurs at the System Entry Point.

In the event that the aggregate quantity of gas claimed by Principals to have entered the system at a System Entry Point exceeds the DQ (over-claim), claims are adjusted (scaled back) in accordance with the provisions of the CVAA, and in this regard it should be noted that producer verification of shipper claims is important. As regards trade mis-matches (that is, where the quantity identified by the seller in respect of a trade is not the same as the quantity

identified by the purchaser), the quantity identified by the seller prevails in the validation process. In the event that the aggregate claim is less than the DQ (under-claim), Principals are notified to enable them to revise their claims. However, any unresolved under-claims are identified to Transco as unclaimed gas and constitute free gas to the system.

Although material under-claims or over-claims are uncommon occurrences due to the robustness of the validation process, material under-claims may occur for reasons beyond the CVA's control (e.g. if a party entitled to gas is seeking to avoid capacity over-run charges payable under the Network Code).

8. CVSA

Section Deleted

9. CVAA

Section Deleted

10. CVIA

Prior to finalisation and implementation of the CVIA, the claims validation process was materially hampered by the absence of comprehensive data from producers on their gas sales. Few Daily Base Statements were submitted by producers, and as producers are not party to the CVSA in that capacity, CVSL itself could do little to incentivise provision of data. Without a producer view of transactions, it was difficult to identify over-claiming shippers at over-sold terminals, and thus scaling of Principals' claims by material amounts was a frequent occurrence. One significant factor serving to deter producers from proving information was that confidentiality provisions in upstream agreements precluded them from doing so.

The CVIA (commonly referred to as the producer agreement) obliges producers and Entry Point Operators to provide relevant data, and provides universal confidentiality provisions to over-ride impediments in upstream agreements. The parties to the CVIA are CVSL, Principals, Suppliers (e.g. producers and Interconnector shippers) and Entry Point Operators.

The CVIA requires each Supplier to furnish the CVA with a Daily Entitlement Statement ("DES") detailing gas sold or retained as a Base Quantity for each System Entry Point on each gas flow day. Additionally, Entry Point Operators provide a Daily Entry Point Statement, which, although not directly used in calculation of validated results, is an essential reference material for resolving discrepancies. Additional key provisions relate to confidentiality, liability and the facility for Suppliers to appoint agents to provide DESs on their behalf.

11. Monthly Timetable of Claims Validation Operations

Key information flows in relation to daily EASs submitted on D+7 and the final monthly EASs are as follows:

Daily Entry Allocation Statements

("D" is the gas flow day concerned. "D+3" is the third business day after day D, etc.)

D+5	Daily Activities Logs from Principals to CVA
D+n+3	Daily Entitlement Statements from Suppliers to CVA (n being date at which allocation in respect of day D becomes available)
D+n+3	Daily Entry Point Statements from Entry Point Operators to CVA (n being date at which information in respect of day D becomes available)
D+5	DQ advised by Transco to CVA (in practice frequently revised after D+5)
D+7	(the "Daily Close-out Time"): initial Entry Allocation Statements for day D, for each shipper, submitted to Transco by CVA

Monthly Entry Allocation Statements

("M" is the month in which the gas flow day occurs. "M+1" is the first business day after the end of month M, etc.)

M+1	interim Entry Allocation Statements submitted by CVA to Transco, with revisions (as required) for quantities specified in the initial EASs which have previously been submitted (by D+7) in respect of gas flow days in month M ("Interim Update Quantities")
M+10	final cut-off for Daily Entitlement Statements and Daily Entry Point Statements to be submitted by Suppliers and Entry Point Operators to CVA for gas flow days in month M
M+12	12:00 hours hard cut-off for Principals to submit revised Daily Activities Logs; thereafter all revisions to be made by CVA
M+15	by midnight (the "Monthly Close-out Time"): final Entry Allocation Statements for each gas flow day in month M, for each shipper, submitted by CVA to Transco

12. Glossary

CVSL	Claims Validation Services Limited, a non-profit making company limited by guarantee.
CVA	Claims Validation Agent, currently GMSL
CVAA	Claims Validation Agency Agreement, dated 29 th February 1996, between PricewaterhouseCoopers (novated from Coopers & Lybrand), further novated to GMSL and CVSL.
CVSA	Claims Validation Services Agreement, dated 29 th February 1996, between CVSL and Principals.
CVIA	Claims Validation Information Agreement, dated 30 th September 1998 between CVSL, Principals, Suppliers (who include upstream producers and Interconnector shippers) and Entry Point Operators.

EAS	Entry Allocation Statement, submitted to Transco by the CVA in accordance with the provisions of Section E.2 of the Network Code.
DAL	Daily Activities Log, a statement submitted to the CVA, setting out details of a Principal's acquisitions and disposals of gas quantities at a particular System Entry Point on a particular gas flow day.
DES	Daily Entitlement Statement, a statement submitted to the CVA by Suppliers, pursuant to the CVIA, relating to gas flow disposals at a particular System Entry Point on a particular gas flow day.
DBS	Daily Base Statement, a statement submitted to the CVA by an upstream producer, relating to a Principal's acquisitions of gas quantities direct from that producers (now largely covered by the submission of DESs pursuant to the CVIA).
DQ	The quantity of gas determined by Transco as entering the NTS at a System Entry Point on a gas flow day in kWh and advised to the CVA via AT Link.
GMSL	Gas Management Services Limited (the CVA).
UDQI	User Daily Quantity Input, per Section E.2 of the Network Code.