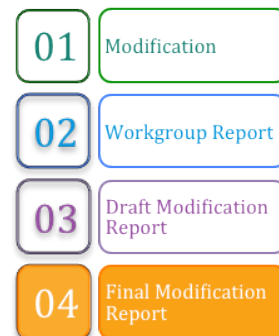


Stage 04: Final Modification Report

0470:

Notification of Minimal Safety operating gas needs of large customers

At what stage is this document in the process?



This modification will allow large customers to indicate to transporters at any particular site, that a customer has to ensure the integrity of their plant during a localised supply constraint.



Panel consideration is due on 17 April 2014



High Impact:
Consumers, Gas Transporters.



Medium Impact:
Shippers



Low Impact:
None

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About this document:

This Final Modification Report will be presented to the Panel on 17 April 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a Self-Governance modification as it may have a material impact on consumers.

Why Change?

A recent survey carried out by the Major Energy Users Council (MEUC) demonstrated that any emergency event (national or local) that would require sites shutting down in the UK has the potential to result in severe damage to large customer plants and subsequently the economy of the UK. This negative financial impact is not only caused by the necessary cessation of manufacturing process during the period of discontinuance, but also by the very real possibility of damage caused by cool down of equipment caused by the premature end of gas flow. This may result in the plant closing permanently with a consequent loss of jobs and a shift of production overseas.

The results of the survey indicated a need to allow customers to clearly notify their transporter of the characteristics of any shut down undertaken to avoid serious equipment damage. Whilst the current proposals under the significant code review being undertaken by Ofgem covers national emergencies, this would not apply to a local emergency and does not differentiate between the gas needs of a site to continue normal commercial operation, and the gas required to safeguard the integrity of the site.

Solution

It is proposed that a more structured solution be put in place over the binary approach to firm load shedding. Daily Read customers (i.e DM Mandatory, DM Voluntary and DM Elective) connected to DN networks would be able to register their system needs under local emergency conditions when shutting down (on a System Needs Register established for the purpose). In the event of a local emergency the DN would have regard for these site needs when handling the emergency. For the avoidance of doubt simply have their system needs registered does not provide the customer any further protection or leeway from being disconnected; the transporters will continue to have complete discretion over how they handle an emergency. This process would only be eligible for those sites that will suffer damage exceeding £25m if the site has to immediately cease gas flow.

Relevant Objectives

This proposal provides greater certainty to the transporters that a customer will reduce its gas consumption when required and prevent catastrophic events at customer sites. The modification will therefore have positive impacts to relevant objective a.

Implementation

Although no timescales are proposed, it would be desirable if implementation were as soon as possible following an Ofgem decision to do so.

2 Why Change?

Changes to the interruption process by UNC Modification 0090 means that there are now far fewer interruptible sites available to the transporters during a gas emergency, meaning that there is a much larger risk of firm customers having their gas use curtailed. This can occur with little or no warning to put a contingency into operation. Discussion with customers have indicated that putting in place backup fuel generation would make in many cases the plant untenable in the UK and would result in the site being closed down and production moved overseas.

The current Ofgem Significant Code Review (SCR) on Security of Supply has put in place measures regarding national emergencies, but the SCR solution does not cover localized constraint emergencies.

Governmental guidelines specify 3 categories¹ of protected customers who will be taken off the system later in the emergency process; these protections however do not apply to local emergencies. In any event the threshold for protection for damage to site is currently set at £50 million and is inaccessible to the vast majority of users.

The results of a recent survey carried out by the MEUC and a subsequent press release by ICoSS² have demonstrated that there is a significant need by UK I&C gas customers for a clear process whereby gas customers can notify their transporter of minimum safe operating gas levels required to ensure minimum maintenance integrity rates to allow for a managed turn down and eventual switch off.

Plants that do shut down in an unmanaged way do have greater difficulties in restarting production and have an increased likelihood of closure, therefore have a negative impact on the local economy and UK plc in General.

¹ <https://www.gov.uk/national-recovery-guidance-infrastructure-issues>

² <http://www.icoss.org/uploads/Gas%20Interruption%20paper%20final.pdf>

3 Solution

Daily read sites connected to the distribution network, will be able to join a register with the purpose of notifying the transporters their site's characteristic with regard to gas supply in order to maintain on site integrity to prevent significant damage to the plant. It is not intended that this be used to preserve process use or during a Gas Deficit Emergency as this is the subject of Ofgem's current Security of Supply Significant Code Review. For this reason, sites connected to the NTS will not be eligible. Also customers included in any of the categories of current priority arrangements³ are to be excluded as they should have sufficient protections in place

The key principle behind this process is to ensure the gas transporter has complete clarity with regard to the gas needs of the customer, whether it be a pre-determined turn down to a specified proportion of the customer's offtake with a view to eventual shut down or an agreement to allow a specific notice period to turn off where possible. To enable this, the process would be triggered by the shipper on behalf of the customer submitting a formal request to the transporter to join the register. The shipper will be required to provide justification for this request as part of the application. It is proposed that customers may only add their details to the register if the damage to their plant from a complete and immediate shutoff would exceed £25m. As part of the application, the customer would have to provide detailed and independent information to justify that amount. ***For the avoidance of doubt simply having their system needs registered does not provide the customer any further protection or leeway from being disconnected; the transporters will continue to have complete discretion over how they handle an emergency.***

The transporter will then be required to provide a response, either accepting or rejecting the application. In the event of a rejection it must provide reasons as to why. As part of its consideration of the application, the transporter may ask for any additional information it reasonably requires to support the application.

As this process only applies for localised constraints, this should not overlap with proposed DSR auction process. Therefore in the event of a NGSE these protections would not be applicable.

Business Rules

1. A register (the System Needs Register) will be established, detailing site specific system needs when a customer is directed to discontinue taking gas from the network during a Local Gas Supply Emergency (LGSE).
2. DN transporters shall be responsible for maintaining the System Needs register
3. Applications to join the System Needs Register will be submitted by shippers on behalf of their customers.
4. Applications will be submitted by shippers on behalf of their customers between 1st of May and 31st of May each year.
5. Each application to join the System Needs Register must set out:
 - a. Name of the customer
 - b. Applicable Meter Point Registration Number (MPRN)
 - c. End user emergency contact details to be used during a LGSE with sufficient backup emergency contact details
 - d. Required shutdown timescales and expected gas needs during that shutdown process.
 - e. Detailed and independent justification for the application, including details on the likely damage (including cost) a site may incur if they are required to shut-down immediately.

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³ (<http://www2.nationalgrid.com/uk/Industry-information/Gas-transmission-system-operations/Interruptions-to-supply/>)

6. Shippers may only apply for a single MPRN per application.
7. The transporter may levy a charge for each application. The charge will be set to reflect their costs in handling the application. DN transporters will be obliged to publish this charge if they decide to levy one.
8. No application can be made by a customer unless:
 - a. it can demonstrate through independent analysis that it will suffer plant damage equal or exceeding £25m if requested to undertake a complete and immediate shutdown during an emergency.
 - b. It is a Daily Read site
 - c. It is not connected to the NTS
 - d. It is not currently classified as a priority industrial consumer
9. Once accepted onto the System Needs Register, the customer will be required to notify the transporters of any changes to the information on the register as soon as possible
10. A site will be held on the register until the next application window. The shipper will need to reapply on behalf of a customer if they wish to stay on the System Needs Register the following year.
11. The transporters may refuse an application to be on the register if the customer has, in its opinion, refused to comply with directions issued by the relevant transporter during a Local Gas Supply Emergency
12. Once submitted the application may be amended with the mutual agreement between the relevant Transporter and shipper. (this process can be initiated by either the Shipper or Transporter and is intended to accommodate changes following any discussion)
13. Transporters will respond to the shipper no later than September 30th each year to any application received. Any response will contain the following information:
 - a. Name of the customer
 - b. Applicable MPRN
 - c. Approval / rejection of the request
 - d. Justification for any rejection if applicable
14. As part of its consideration of the application, the transporter may ask for any additional information it reasonably requires.
15. Any agreed shutdown procedures will only apply during Local Gas Supply Emergencies only.
16. During a Local Gas Supply Emergency, the DN transporter will have regard for the System Needs Register, but will not be obliged to act on the information contained therein.
17. Being on the register will not necessarily mean that a customer will be treated differently to any other customer not on the register during an emergency.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
This Modification neither introduces nor amends an existing User Pays Service therefore this is not classed as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.
Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
Not applicable

4 Relevant Objectives

Impact of the modification on the Relevant Objectives :	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Relevant Objective a)

This modification should improve planning for the management of large sites during an emergency and allow Transporters to consider their individual requirements when implementing emergency procedures. This should therefore have a positive impact on the management and operation of the pipeline system.

5 Implementation

Although no timescales are proposed, it would be desirable if implementation were as soon as possible following an Ofgem decision to do so.

The Workgroup notes that it would be desirable if this modification were implemented in time for Users to submit applications for the 2014/15 Gas Year. The application window runs from 01 to 31 May.

6 Legal Text

Text

The text for this modification has been prepared at the request of Panel by Scotia Gas Networks and is published alongside this report.

7 Consultation Responses

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
British Gas	Neutral	none	<ul style="list-style-type: none"> concerned that this process will add additional complexity to an emergency situation. will give successful applicants a false sense of security that during any emergency they will be able to offtake a minimal volume of maintenance gas.
Chemical Industries Association (CIA)	Comments		<ul style="list-style-type: none"> concerned that the £25M damage threshold is set on absolute basis, and should be set relative to an appropriate activity measure, e.g. damage repair cost as a proportion of the annual turnover. the modification in its current form does not offer any protection to end-users who would suffer damage in the event of a supply constraint as the transporter still maintains complete discretion over how to handle the emergency
E.ON UK	Support	a - positive	<ul style="list-style-type: none"> will improve site information Transporters have and how they can respond to requests to shut down in an emergency. where Transporters can facilitate a managed shut down rather than an immediate cessation of gas flow, this will allow large users to avoid significant financial loss and the consequential impacts to their businesses and potentially to the local economy. customers making an application to be on the System Need Register creates a natural incentive to improve the emergency contact information provision to the Transporters for these specific customers.
Gazprom	Support	a - positive	<ul style="list-style-type: none"> will enable large customers to liaise with the relevant Transporter to provide site specific information which may aid efficiently managing a localised constraint
Health & Safety Executive (HSE)	Oppose		<ul style="list-style-type: none"> supports the principal. concerned with maintaining continued compliance with the Gas Safety (Management) Regulations 1996 (GSMR) safety case in terms of co-ordinating actions and minimising safety consequences in a Network Gas Supply Emergency should such an event occur. as the health and safety regulator for the Gas Safety (Management) Regulations 1996 there is impact on the safety cases of the NEC and GT as accepted by HSE: if implemented the NEC & GTs may not be able to comply with their safety cases.

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National Grid Distribution	Oppose	none	<ul style="list-style-type: none"> concerned of false expectations from customers and that giving “preferential” treatment could have a significant impact on the ability to reduce demand.
National Grid NTS	Comments		<ul style="list-style-type: none"> applicable only to Local Gas Supply Emergencies (LGSE) and therefore only impacting on the Distribution Networks. consumers may assume they have additional protection from the need to take Emergency Steps in a LGSE.
Network Emergency Co-ordinator (NEC)	Oppose	a - not positive	<ul style="list-style-type: none"> modification introduces new arrangements for LGSE events that could result in ambiguity of GSMR directions to cease gas consumption in an Network Gas Supply Emergency (NGSE) event. potential for ambiguity regarding NEC direction in an emergency event is a risk that will likely grow over time as more Users assume protection via the principles of this modification. modification suggests priority arrangements for large gas consumers directly connected to Distribution Networks do not apply in an LGSE. This is not the case; priority arrangements apply in both LGSE and NGSE events.
RWE npower	Support	a - positive	<ul style="list-style-type: none"> will improve the accuracy of Transporter information for use in the event of an emergency and has the potential to limit the commercial impact on large business users.
Scotia Gas Networks	Comments	a - positive	<ul style="list-style-type: none"> implements a process whereby a customer can apply to the Gas Transporter to be placed on a register of sites with specific shut-down requirements to be taken into account (where possible) during a LGSE. as long as the relevant customers are fully informed of the network responsibilities and rights during an LGSE, whether the customer is on the register or not, then this process should not have a material impact. if the customer does not fully understand the caveats associated with the register i.e. that they may still be required to immediately shut-down, then this could potentially have a negative impact on the Transporters ability to effectively manage LGSE procedures.
SSE	Support	a - positive	<ul style="list-style-type: none"> would provide transporters with information on sites that would suffer sever damage if shut down. This would allow them to take preventative measures where possible to avoid this happening. Whilst this modification does not place any obligation on transporters, the fact that this information would be available is a positive move.

Total Gas & Power Ltd	Support	a - positive	<ul style="list-style-type: none"> beneficial to large qualifying customers and could lead to a more efficient management of a constraint and may minimise the commercial impact on certain customers.
Wales & West Utilities Ltd	Oppose		<ul style="list-style-type: none"> the objectives could be met without an application process. application process would add administrative costs and may also introduce a level of expectation that could not be met. could adversely impact the load shedding process.
Wingas UK Ltd	Support	a - positive d - positive	<ul style="list-style-type: none"> will improve the robustness of the emergency process and provide clarity to the customer on what is expected of them. will allow customers to clearly communicate their gas requirements for safe and controlled shut-off prior to any emergency event. will give Transporters a clear understanding of the needs of large customers.

Representations are published alongside the Final Modification Report.

Of the fourteen representations received six supported implementation, three provided comments, one remained neutral, and four were opposed.

Panel Considerations

British Gas, E.ON UK, National Grid NTS, RWE npower, Scotia Gas Networks, SSE, Total and Wingas do not believe this change will have a material impact on competition in shipping, transportation or supply of gas.

The NEC considers there is the potential, that a direction to large gas consumers connected to Distribution Networks to cease consumption of gas, following NEC direction to DNs, is incorrectly challenged due to the assumed levels of protection provided by this modification.

National Grid Distribution believes the modification may have a material impact on the ability of a Distribution Network to manage the process of shedding firm load. It would be necessary to take more information into account due to the creation a new class of site. It may also set a false expectation for customers with sites, which have been accepted onto the register, with regard to the level of protection that they can expect.

Additional Issues Identified in Responses

British Gas highlighted that the Legal Text provides no clarification on the definition of Daily Read and believes the definition is open to interpretation and could include any customer with a smart or AMR meter. They were also unable to clearly identify the changes related to the business rules.

British Gas is confused by the title of the modification. The title states the change relates to a safety case to offtake gas during a localised emergency. The modification solution suggests the decision to allow some customers to pre-request to offtake maintenance gas during a localised emergency is commercial only. They believe it is good governance to clarify this paradox.

The HSE advises that an NGSE event can lead to an LGSE event, so there is potential for a lack of clarity on the direction for cessation of gas to sites because in such circumstances the proposed modification would not apply as compared to the occurrence of a separate NGSE event. This is not covered or explained.

The HSE is concerned that there is not yet enough clarity in how the modification will work or be implemented. HSE would not be able to support implementation of the

modification until it is in a form that is acceptable to the NEC and GTs in terms of them being able to continue to comply with their GSMR safety cases in the area of their obligations during gas supply emergencies.

National Grid Distribution considers that this modification, if implemented, may have a material impact on the ability of a Distribution Network to manage the process of shedding firm load. It would be necessary to take more information into account due to the creation a new class of site. It may set a false expectation for customers with sites, which have been accepted onto the register, with regard to the level of protection that they can expect.

National Grid NTS notes the legal text proposes 'independent analysis' to support a consumer's case that compliance with the Transporter's instructions during a LGSE could result in at least £25m of damage. However, the £25m amount may be perceived as a 'target' and there may be a 'high' number of applicants able to provide analysis to justify this amount of potential damage, which the Transporters could not reasonably challenge.

National Grid NTS considers over time the relevant legal text will become less prominent in the minds of consumers included within the new Supply Needs Register. This may mean that some such consumers assume they have additional protection from the need to take Emergency Steps in a LGSE.

National Grid NTS highlight that the modification is not intended to apply to sites connected to the NTS. Therefore the legal text would benefit from use of the term 'DN Operator' (rather than 'Transporter') in several places, in order properly to reflect the intention of the Modification having no impact on NTS and high impact of the modification on DN Operators.

The NEC requests that where large gas consumers believe that the existing arrangements for priority consumers as set by the Secretary of State are "inaccessible to the vast majority of Users" then this issue should be raised directly with DECC and not by way of UNC modification as it is important that the clarity of liability limits remains with DECC.

The NEC wishes to note that all large gas consumers should have appropriate plans in place to facilitate the safe shutdown of plant and equipment in the event of gas supply failures. This modification should have no impact on this safety requirement.

Wingas had examined the issue on whether the legal text, as drafted, would result in any requirements on transporters to act in accordance with the information provided by the customer and so limit their actions during an emergency. They were confident that it does not and noted that the workgroup did not identify this as an issue when the legal text was developed. For the avoidance of doubt the information provided to the transporter can be disregarded for all sites if, in the transporter's opinion, the emergency warrants this and no liability will accrue for doing so.

8 Panel Discussions

9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0470 [should/should not] be made.

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