

Draft Modification Report
Changes in Gas Supply Emergency Arrangements
Modification Reference Number 0635

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

It is proposed that the present arrangements for a Network Gas Supply Emergency Gas Deficit Emergency (GDE) be changed as follows:

- During Stage 2 of a GDE, at which the Network Emergency Coordinator (NEC) would be seeking to maximise gas supplies at one or more System Entry Points, the NEC would have discretion as to whether Transco would retain the option of using the Trading System for system balancing purposes on that Day. If this were the case, the cash-out price derivation would remain unchanged in respect of that Day. With the exception of Users directly affected by an instruction from Transco to the Operator of a Storage Facility, the claims review procedure would not apply if the normal commercial arrangements were not suspended.
- In the event that the NEC did proceed to Stage 3 of a GDE, normal commercial arrangements would be suspended and the present emergency cash-out arrangements (ie priced at the previous 30 days average SAP, the GDE "administered" cash-out price) would apply.

The June Network Code Modification Panel meeting approved this Proposal to proceed to consultation, subject to further discussion at the NT&T Workstream to inform the Draft Modification Report.

2. Transco's Opinion

Transco notes the minority views expressed at the Commercial Implications Working Group of the GIEC (CIWG) that permitting the use of the OCM later into an emergency might better facilitate the avoidance of firm load shedding.

Transco notes that there might be circumstances where it is necessary to invoke "command and control" instructions for gas in accordance with the Gas Safety Management Regulations. However, Transco notes that these are not always totally effective at all parts on the System and therefore the continuation of the market might facilitate the availability of additional gas.

Of particular importance is the potential for the continental Interconnector imports and demand-side management to respond to commercial opportunities to facilitate resolution of the emergency situation. Transco believes that continuation of the market might encourage such flexibility to be offered via the OCM thereby increasing the likelihood of averting Stage 3 of an emergency, which is characterised by instructions to firm load shed from Transco.

Specifically, on the demand-side, Transco expressed the view in CIWG that end-consumers might be more willing to offer up demand-side flexibility at Stage 2 of an emergency than they might be at Stage 1, when Transco might utilise emergency interruption of transportation interruptible loads. This might be driven by concerns that at Stage 1, given most firm transportation end-consumers desire to continue offtake of gas and a perception of low risk of firm load shedding, end-consumers would be unwilling to offer up flexibility, despite the commercial opportunity. Additionally, limited participation at Stage 1 might be driven by User and end-consumer concerns that the NEC might make a premature declaration of Stage 1 of an emergency. However, at Stage 2 and with the greater perceived risk of firm load shedding end-consumers, for an appropriate price, end-consumers might be prepared to enter into contractual commitments to offer up the flexibility that could avert Stage 3 of the emergency, thereby facilitating a market solution to the emergency. Continuation of the market might be considered likely to promote better market efficiency by maintaining the normal cash-out incentives later into an emergency.

Transco believes that this supports the view that the Proposal has merit in so far as it is likely to increase the probability of averting Stage 3 of a GDE. Transco would welcome respondents' views as to whether the above analysis supports this conclusion.

However, the CIWG recognised the issues associated with continuation of the market at Stage 2. Specifically, Transco noted that once "command and control" has been invoked then the System might still benefit from incremental gas flows onto, or, gas offtake reduction from the System. Should this Proposal be implemented, Users would be aware that if they are likely to be credited with the incremental gas then such Users are faced with a choice: either allow the gas to flow into the daily balancing account and take the price defined by the cash-out mechanism, or, to seek to sell the incremental gas on the OCM at what would be an assured price. If the latter were chosen then this would raise issues associated with the price that Transco might be prepared to pay for such gas and its potential implications to the cash-out price.

Transco would emphasise that discretion over suspension of normal balancing mechanisms would be given to the NEC in that capacity, not to Transco in its capacity of Gas Transporter. This would be consistent with all the principles of the NEC Safety Case and joint emergency management arrangements agreed with DTI. Transco recognises that implementation of this Proposal might require some amendment to emergency processes and procedures that might involve liaison with the DTI.

Transco would welcome respondents' views as to the considerations, should this Proposal be implemented, that Transco should apply before it might choose to accept such gas or not. In particular, Transco would welcome the views of respondents as to:

- The criteria to assess whether the taking of such offers might be considered consistent with economic and efficient operation of the regime where such gas is offered in response to instructions to maximise gas delivery at particular points on to the System; and
- Whether such arrangements might encourage cash-out exposure which might better promote User demand/supply balancing, thereby decreasing the risk of the occurrence of latter stages of an emergency.

Transco recognises that the interactions between co-existence of market mechanisms and "command and control" processes are complex and would welcome detailed comments from respondents to inform refinement of the legal text should the Proposal be recommended for implementation.

Transco considers that a GDE might have a direct effect on the electricity market as demand-side interruptions or curtailment might be expected to affect power generation and would therefore welcome views on the potential interactions and impacts between the gas and electricity markets.

Transco's provisional view is that this Modification Proposal should be implemented. However, Transco is mindful of the conflicting views of CIWG participants and will carefully consider representations before formulating a final recommendation.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Providing the NEC with discretion over suspension of normal balancing arrangements might lead to additional availability of gas at System Entry Points. Therefore, implementation of this Modification Proposal would increase the ability of the NEC to avoid the later stages of a GDE thereby facilitating more efficient and economic operation of Transco's pipeline system. It is also possible that allowing the market to continue for longer into a GDE will better facilitate competition between Users.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Implementation of this Proposal might affect the operation of the System in the event of a GDE should the NEC decide to use its discretion and not suspend normal commercial balancing. Transco, however, considers that this may deliver benefits arising from maximising gas flows into the System but would welcome views of respondents to inform the Final Modification Report.

b) development and capital cost and operating cost implications:

Transco has not identified any development or capital cost implications and considers that any implications on operating costs would be minor.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco does not propose to recover any costs arising from the implementation of this Modification Proposal.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco is not aware of any consequences that implementation of this Modification Proposal would have on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco is not aware of any change in the level of contractual risk.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco is not aware of any development or other implications for computer systems arising from the implementation of this Modification Proposal.

7. The implications of implementing the Modification Proposal for Users

Transco considers that Users would have an increased commercial opportunity to address the supply/demand deficit which is a characteristic of a GDE. In maximising gas flows onto the System, implementation might also reduce the risk of proceeding to Stage 3 of a GDE.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

The implications of a GDE would extend to all parts of the gas chain including Non-Network Code Parties. It would therefore be expected that the benefits arising from maximising commercial opportunities to address the supply/demand deficit and reducing the risk of firm demand would apply to various gas industry participants.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is not aware of any such consequences.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Transco has identified the following advantages arising from implementation:

- If the NEC used its discretion there would be an extended period for market mechanisms to address the supply/demand deficit which is consistent with efficient operation of the System; and

- By reducing the risk of proceeding to Stage 3 of a GDE, implementation would, in consequence, reduce the need for curtailment of firm demand and for claims of financial loss.

Transco has identified the following disadvantage arising from implementation:

- Extending the period of operation of commercial balancing might encompass a period of considerable price volatility which would set high cash-out prices for that Day if the GDE did not proceed to Stage 3.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco invites representations to this Modification Proposal.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Transco is not aware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is not aware of any such requirement.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco is not aware of any such programme of works.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco believes that if implementation of the Modification Proposal is recommended it should be implemented by 1 September 2003 in order that any emergency exercise conducted in that month may reflect the proposed changes in Emergency Arrangements.

16. Recommendation concerning the implementation of the Modification Proposal

Transco's provisional view is that this Modification Proposal should be implemented. However, Transco is mindful of the conflicting views of CIWG participants and will carefully consider representations before formulating a final recommendation.

17. Text

SECTION Q

Amend paragraph 3.1.1 to read as follows:

“3.1.1 Where the NEC declares . . . Transco will:

- (i) inform Users . . .;
- (ii) thereafter keep Users reasonably informed . . . (including, without limitation, any determination made by the NEC and notified to Transco pursuant to paragraph 3.2.2(ii) or paragraph 3.5.1); and
- (iii) inform Users . . . is no longer continuing.

Delete paragraph 3.2.2 in its entirety and replace it with the following:

“3.2.2

- (i) In a Network Gas Supply Emergency Gas Deficit Emergency which has been deemed Stage 3 or higher by the NEC and (where pursuant to paragraph (ii) below this paragraph (i) applies) in a Stage 2 Network Gas Supply Emergency Gas Deficit Emergency, the application of Section D (other than paragraph 2.4 thereof) will be suspended and with effect from the time the Network Gas Supply Emergency Gas Deficit Emergency was deemed Stage 3 by the NEC or (if applicable) the time the NEC determined pursuant to paragraph (ii) below that this paragraph (i) should apply, and in respect of any later Gas Flow Day falling within the duration of a Network Gas Supply Emergency Gas Deficit Emergency, Transco will not take any Market Balancing Actions.

- (ii) In a Stage 2 Network Gas Supply Emergency Gas Deficit Emergency, the NEC may determine and notify Transco that, from such time as shall be specified by the NEC the provisions of paragraph (i) above shall apply.
- (iii) In a Network Gas Supply Emergency Gas Deficit Emergency (irrespective of whether or not a determination has been made pursuant to paragraph (ii) above) the Emergency Procedures will apply and Transco's decisions as to the delivery and offtake of gas to and from the System will be implemented pursuant to paragraphs 3.3 and 3.4.

Amend paragraph 3.5.1 to read as follows:

“3.5.1 If, in the event of a Network Gas Supply Emergency Critical Transportation Constraint Emergency, the NEC determines at any time . . . in accordance with paragraph 1.3.1 above, it shall notify Transco and the application of Section D (other than paragraph 2.4 thereof) will be suspended with effect from such time as may be determined by the NEC and notified to Transco and then notified to Users . . .”

Amend paragraph 4.1.1 to read as follows:

“4.1.1 In respect of each Day or part of a Day during a Network Gas Supply Emergency Gas Deficit Emergency for which paragraph 3.2.2(i) applies:
...”

Insert a new paragraph 4.1.2 as follows:

“4.1.2 In respect of each Day or part of a Day during a Network Gas Supply Emergency Gas Deficit Emergency for which paragraph 3.2.2(i) does not apply:

- (i) the provisions of Section B as to Overrun Charges, LDZ CSEP Overrun Charges and Supply Point Ratchets will not apply and the provisions of Section B2 as to Daily System Entry Capacity, Interruptible System Entry Capacity, surrender of System Entry Capacity and curtailment of System Entry Capacity shall not apply (and in relation to the first such Day or part of a Day, amounts payable pursuant to the application of those paragraphs on the Preceding Day shall cease to be payable);

- (ii) Section C will apply;
- (iii) Section D will apply;
- (iv) Section E will apply, subject to paragraph (vi); but the Exit Close-out Date may be deferred;
- (v) Section F3.2 will not apply but the remainder of Section F will apply;
- (vi) the application of Section H will be modified with a view to ensuring (on such approximate basis as is reasonably practicable in the circumstances) that gas is not treated as offtaken at NDM Supply Point Components at which the offtake of gas has been discontinued pursuant to Emergency Steps as described in paragraph 3.4.1;
- (vii) Section I3.10 (as to rates of delivery of gas) will not apply, and where Transco requests or permits the delivery of gas to the System which does not comply with the applicable Gas Entry Conditions, Section I 3.4 will not apply;
- (viii) the provisions of Sections G and M as to payments by Transco to Users in respect of the performance or failure to perform Transco's obligations under those Sections will not apply to the extent any failure in such performance results from the Gas Supply Emergency or the taking of Emergency Steps; and
- (ix) Transco may by notice to Users suspend the implementation (as respects all Users) of any of the provisions of Section G.

Renumber paragraph 4.1.2 as 4.1.3.

Amend paragraph 4.2.1 to read as follows:

“4.2.1 In a Network Gas Supply Emergency Gas Deficit Emergency for which paragraph 3.2.2(i) applies, Section F2 will apply on such modified basis as is appropriate ...”

Insert a new paragraph 4.4 as follows:

“4.4.1 Where on any Day during a Stage 2 Network Gas Supply Emergency Gas Deficit Emergency for which paragraph 3.2.2(i) does not apply, a User (the “**claimant**”) believes that it will suffer a financial loss in respect of any gas delivered to the System in accordance with Transco’s instructions to the operator of a Storage Facility (in which the User had gas-in-storage) pursuant to paragraph 3.3.3:

- (i) the claimant may within such time as Transco shall reasonably require submit to Transco a claim in respect of such financial loss together with details of the basis on which it believes it will suffer such loss and the amount thereof;
- (ii) Transco will appoint an independent accountant or other appropriately qualified person as “**claims reviewer**” to review each claimant’s claim and advise Transco of whether the claim appears to the claims reviewer to be justified and the amount which (in the claims reviewer’s opinion) the claimant should be paid so that it will not suffer such financial loss;
- (iii) the claimant shall be required (as a condition of its claim being considered, but subject to the claims reviewer accepting a reasonable obligation of confidence) to provide such information, access to records and co-operation as the claims reviewer shall reasonably require;
- (iv) the fees and costs of the claims reviewer shall be paid by Transco and shall be additional Monthly Adjustment Neutrality Costs for the month in which they are paid; and
- (v) Transco will (after consultation with the claimant and the Director) pay to the claimant the amount advised by the claims reviewer (unless on Transco’s application after consultation with the claimant the Director shall give Condition 7(4) Approval to Transco’s paying a different amount).

4.4.2 In applying Section F4 in respect of Days during a Stage 2 Network Gas Supply Emergency Gas Deficit Emergency for which paragraph 3.2.2(i) does not apply:

- (a) amounts payable by Transco to Users pursuant to paragraph 4.4.1; and

- (b) all such costs as Transco may reasonably incur pursuant to paragraph 3.4, will be taken into account as though such amounts were Market Balancing Action Charges payable by Transco (for the purposes of Section F4.4.3).

Renumber paragraph 4.4 as paragraph 4.5.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Nigel Sisman
Development Manager, Gas Balancing
NT & T

Date: