

Direct Dial: 020 7901 7021

20 September 2002

Shippers, other interested parties and Transco

Our Ref: Net/Cod/Mod/582

Dear Colleague,

**Modification Proposal 582 – “Changes to Commercial Arrangements for a Network Gas Supply Emergency”**

Ofgem has considered the issues raised in Modification Proposal 582 – ‘*Changes to Commercial Arrangements for a Network Gas Supply Emergency*’ - and has decided to direct Transco to implement the modification. In this letter, we explain the background to the modification proposal, the nature of the proposal and give our reasons for making this decision.

**Background**

Ofgem recently rejected modification proposals 502 ‘*Changes to Commercial Arrangements in the Event of a Gas Supply Emergency*’ and 568 ‘*Changes to Commercial Arrangements in the Event of a Network Gas Supply Emergency*’. Full details can be found in our decision letter rejecting both modifications, which was published on 30 August.

Transco subsequently put forward modification proposal 582. Ofgem granted the modification proposal urgent status (see our letter dated 4 September) so that, dependent on respondents’ views, any emergency exercise might proceed as planned. However, in summary, we considered that further work needed to be carried out before making any any changes to the commercial arrangements.

**The modification proposal**

Modification proposal 582 proposes to define two types of emergency: a Gas Deficit Emergency (GDE) and a Critical Transportation Deficit Emergency (CTDE). It does not propose any changes to the calculation of the current emergency cash-out price (average of the previous 30 days System Average Price (SAP)), although in the event of a CTDE, On-the-day Commodity Market (OCM) trading would continue.

Modification proposal 582 also proposes the same changes to the basis for claims for financial loss in the event of an emergency as contained in modifications 502 and 568.

## **Respondents' views**

Eight representations were received in response to this modification proposal. Four respondents were against the proposal, one gave it qualified support and three supported it. Amongst those respondents who did not support the modification there was nevertheless some support for the definition of two types of emergency.

Respondents commented on the possible impact of a neutral cash-out price on cash-out incentives; the need for further consideration of the interaction between the gas and electricity markets; the arrangements for financial loss claims and the definition of any subsequent 'windfall gains'; and the granting of urgent status for this modification to enable an emergency exercise to proceed.

## **Transco's Response**

Transco supports implementation of this modification and the definition of two types of gas supply emergency. In response to the specific areas of concern raised by respondents, Transco states that it does not believe that in a GDE type emergency shippers' behaviour would be significantly affected by the cash-out price; that the detailed nature of the legal text should provide adequate protection against any misinterpretation of, for example, what constitutes a 'windfall gain'; and that it welcomes further debate on the interaction between the gas and electricity markets.

Following publication of the final modification report and discussions with Ofgem, Transco has issued an amended final modification report that omits any references to changes in the compensation claims process. Under the present Network Code rules, Transco is permitted to make such an amendment in respect of a Transco-raised modification proposal.

## **Ofgem's view**

We consider that it is important that Transco's emergency exercise is able to proceed as planned. This exercise is the result of the work of the Gas Industry Emergency Committee and it is clearly envisaged that two types of emergency should be considered. It was for this reason that we granted urgent status to the modification proposal.

However, in line with our rejection letter for modifications 502 and 568, Ofgem does not believe that there should be any further changes to the current emergency arrangements either in terms of the calculation of any applicable cash-out price or to the basis for any claims for financial compensation in the event of an emergency until further work is carried out.

**Ofgem's decision**

Ofgem has decided to direct Transco to implement this modification because we believe that it better facilitates the relevant objectives in Transco's Gas Transporters licence.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number or Amrik Bal on 020 7901 7074.

Yours sincerely,

Kyran Hanks  
**Director, Gas Trading Arrangements**