

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0582

"Changes to Commercial Arrangements for a Network Gas Supply Emergency"

Version 1.0

Date: 03/09/2002

Proposed Implementation Date: 01/10/2002

Urgency: Urgent

Justification

The Gas Industry Emergency Committee (GIEC) has recommended changes to the emergency procedures that would enable normal commercial balancing arrangements to remain in place during a specific type of Network Gas Supply Emergency. To enable this, the text of Network Code Section Q needs to be amended in a manner that is consistent with these proposed changes to the emergency procedures.

Transco has planned an exercise to simulate differing sources of a Network Gas Supply Emergency to be held in the week commencing 22 September 2002, which is intended to include simulation of the proposed emergency types. Transco seeks Urgent status for this Network Code Modification Proposal to ensure that this exercise is valid.

Nature of Proposal

It is proposed that for the two types of Network Gas Supply Emergency now defined in the Network Emergency Co-ordinator's Safety Case, different Network Code arrangements would apply:

For a Network Gas Supply Emergency Gas Deficit Emergency (GDE), the present provisions of Section Q 4.1 would continue. These include suspension of gas trading on the On the Day Commodity Market (OCM).

For a Network Gas Supply Emergency Critical Transportation Constraint Emergency (CTCE), commercial system and User balancing arrangements such as OCM trading would continue to apply throughout the emergency.

In respect of the relevant cash-out prices applied to Users' imbalances, it is proposed that no change be made to the current cash-out arrangements if the daily commercial balancing regime were suspended. This addresses a concern expressed by Ofgem in its decision letter on Modification Proposals 0502 and 0568. This related to the prospect of setting the cash-out price in the event of a Gas Deficit Emergency to twice the arithmetic mean of the System Average Prices for the immediately preceding 30 days.

In respect of claims for financial loss it is proposed that:

In the event of a GDE, claims for financial loss (existing paragraph Q4.2.5) would be subject to the following principles:

Allowed costs should be based on an appellant's total costs and not the cost of an individual source;

Intra-group transfers should be deemed to be made at market price;

“Windfall gains” should be netted off wherever possible;

Reasonable administrative/legal costs of making a claim should be allowed, but subsequent costs of pursuing a claim should not be; and

These costs should be limited to 5% of the net claim;

In the event of a CTCE, the same principles would apply but, in addition, claims would only be considered in respect of gas withdrawn from storage as a result of NEC actions.

Purpose of Proposal

The benefits of implementing the Proposal arise from commercial balancing arrangements remaining in force throughout a CTCE. During a period of suspension of commercial arrangements, the efficiency benefits arising from these arrangements would not apply. Implementation of this Proposal would therefore be consistent with the efficient discharge of Transco's obligations as licensee in respect of emergencies. For the same reason, implementation would also be consistent with the efficient operation of Transco's pipe-line system and with securing effective competition between relevant shippers and suppliers.

Consequence of not making this change

The benefits identified by GIEC would not be achieved and, for both types of emergency, normal commercial arrangements would be suspended for the duration of that emergency.

Area of Network Code Concerned

Section Q.

Proposer's Representative

John J Bradley (Transco)

Proposer

Tim M Davis (Transco)

Signature

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