

Draft Modification Report
Changes to Commercial Arrangements in the event of a Network Gas Supply Emergency
Modification Reference Number 0568

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 for the two types of Network Gas Supply Emergency, 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 in 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:

- In the event of a GDE, the emergency cash-out price would be set to twice the arithmetic mean of the System Average Prices for the immediately preceding 30 days. This is twice its present value.
- In the event of a CTCE, normal arrangements would apply and there would therefore be no requirement to set a price based upon the previous 30 days' prices.

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event of a CTCE, the same principles would apply but, in addition, claims would only be considered in respect of gas withdrawn from storage as a result of NEC actions.

In parallel with this Proposal, Transco will be submitting material proposals for the revision of the NEC Safety Case and be proposing changes to its emergency procedures. It is recognised that this Proposal should not be implemented if these revisions were not approved by HSE.

2. Transco's Opinion

Transco supports implementation of this Modification Proposal as the current emergency arrangements are most relevant to a Network Gas Supply Emergency Gas Deficit Emergency.

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

Transco believes that implementation of this Modification Proposal would be consistent with the efficient operation of its pipe-line system as it would allow normal commercial arrangements to remain in place for a CTCE. Retaining normal commercial arrangement would also be consistent with securing effective competition between relevant shippers and suppliers. In the event of a GDE, setting the cash-out price at a higher level than present would reduce the likelihood of Users having to invoke the appeals procedure and this would be consistent with efficient and economic operation. More efficient operation by Transco of its pipe-line system in the event of a Network Gas Emergency would in turn better facilitate the efficient discharge of Transco's obligations under its Licence with regard to emergencies.

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

Transco, in its role as Network Emergency Co-ordinator is already required to identify and notify Shippers of the category of Network Gas Supply Emergency, however, if this Modification Proposal were implemented Transco would no longer suspend commercial arrangements in the event of a CTCE.

b) development and capital cost and operating cost implications:

Transco is not aware of any development costs required to implement this Modification Proposal or of any implications for operating costs.

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 anticipates that implementation of this Modification Proposal would not lead to an increase in costs.

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

Transco is not aware of any consequences this 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 does not anticipate that there would be any consequences on the level of contractual risk to Transco under the Network Code as a result of implementation of this Modification Proposal.

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

Transco does not anticipate any development implications for its computer systems or the related systems of Users.

7. The implications of implementing the Modification Proposal for Users

Users are less likely to suffer financial loss due to better definition of the type of Network Gas Supply Emergency and subsequent financial impact.

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

Transco is not aware of any such implications of implementing this Modification Proposal.

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 does not anticipate any consequences on the legislative and regulatory obligations and contractual relationships of each User and non-Network Code Party of implementing the Modification proposal.

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

Advantages: Clearer and more effective rules and procedures for dealing with emergencies.
Disadvantage: Transco has not identified any disadvantages.

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 in respect of this Draft Modification Report.

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

Transco is unaware 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 unaware of any such requirement.

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

Material changes would be required to NEC and GT procedures. As these changes are material, HSE approval is being sought in parallel with implementation of this Modification Proposal.

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

Transco recommends implementation of this Modification Proposal as soon as possible.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification proposal be implemented.

17. Text

Section Q:

Amend paragraph 1.2.3 to read as follows:

“1.2.3 For the purposes of the Code:

- (a) a “**Network Gas Supply Emergency**” is a network gas supply emergency (as referred to in the NEC Safety Case), namely a Gas Supply Emergency which involves or may involve a loss of pressure in the NTS;

- (b) a “**Network Gas Supply Emergency Gas Deficit Emergency**” is a Network Gas Supply Emergency which arises as a result of deliveries of gas to the System being insufficient for the purpose of meeting demand for gas on the System;
- (c) a “**Network Gas Supply Emergency Critical Transportation Constraint Emergency**” is a Network Gas Supply Emergency which is not a Network Gas Supply Emergency Gas Deficit Emergency; and
- (d) any other Gas Supply Emergency is a “**Local Gas Supply Emergency**” (that is, local gas supply emergency as referred to in the NEC Safety Case).”

Amend paragraph 3.1.1(i) to read as follows:

- “(i) . . . whether it is a Potential Network Gas Supply Emergency or of the Stage thereof, and (in the case of a Network Gas Supply Emergency which is not a Potential Network Gas Supply Emergency) whether it is a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Critical Transportation Constraint Emergency, and (in the case of any Gas Supply Emergency), in so far as reasonably practicable, of the nature, extent and expected duration . . .”

Amend paragraph 3.2.2 to read as follows:

“In a Network Gas Supply Emergency Gas Deficit Emergency the application of Section D . . .”

Amend paragraph 3.3.2 to read as follows:

Amend paragraph 4.1.1 to read as follows:

“In respect of each Day or part of a Day during a Network Gas Supply Emergency Gas Deficit Emergency:

- (i) . . . Daily System Entry Capacity . . . ;
- . . .
- (viii) . . . ; and

(ix) . . . provisions of Section G.”

Amend the title of paragraph 4.2 to read as follows:

“Clearing of gas balances following a Network Gas Supply Emergency Gas Deficit Emergency”

Amend paragraph 4.2.1 to read as follows:

“In a Network Gas Supply Emergency Gas Deficit Emergency Section F2 will apply . . .”

Amend paragraph 4.2.2 to read as follows:

“In respect of each Day during a Network Gas Supply Emergency Gas Deficit Emergency:

(i) . . . ;

(ii)”

Amend paragraph 4.2.3 to read as follows:

“4.2.3 For the purposes of this paragraph 4.2 the “**relevant price**” is calculated as:

$$X * 2$$

where:

X is the value of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2 but by reference to the 30 Days preceding the Day on which the Network Gas Supply Emergency Gas Deficit Emergency started; .”

Amend paragraph 4.2.4 to read as follows:

“In applying Section F4 in respect of Days during a Network Gas Supply Emergency Gas Deficit Emergency amounts payable by Transco . . . (for the purposes of Section F4.4.3).”

Amend paragraph 4.2.5 to read as follows:

- “ . . . the relevant price in respect of the aggregate quantity of gas delivered to the System on a Day during a Network Gas Supply Emergency Gas Deficit Emergency (but not in respect of . . .):
- (i) . . . amount of such loss (and which may include an amount in respect of administrative and professional costs incurred by the claimant for the purposes of submitting a claim);
 - (ii) . . . so that it will not suffer such financial loss and in considering the amount which the claimant should be paid the claims reviewer will have regard to the criteria in paragraph 4.2.6;
- ...”

Add a new paragraph 4.2.6 to read as follows:

“4.2.6 The criteria referred to in paragraph 4.2.5(ii) are:

- (a) account will only be taken of the claimant’s aggregate net costs in relation to the aggregate quantity of gas delivered to the System on the relevant Day;
- (b) the maximum amount that can be taken into account in respect of administrative and professional costs incurred in submitting a claim is an amount equal to the lesser of the actual costs incurred and 5% of the total amount payable (if any);
- (c) no account will be taken of any administrative or professional costs incurred by the claimant following submission of the claim; and
- (d) no claim may be made in respect of any uplift or other charge applied by any 33 1/3% Affiliate of the claimant.

Renumber existing paragraph 4.3 as 4.4 and add new paragraph 4.3 to read as follows:

“4.3 Consequences of Network Gas Supply Emergency Critical Transportation Constraint Emergency

4.3.1 Where a User believes that it will suffer a financial loss in respect of any gas delivered to the System on any Day during a Network Gas Supply Emergency Critical Transportation Constraint Emergency following 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 provisions of paragraphs 4.2.5(i) to (v) (inclusive) and paragraph 4.2.6 shall apply (subject to paragraph (ii)) and the references therein to claimant, claim and claims reviewer shall be interpreted accordingly for the purposes of this paragraph 4.3.1;
- (ii) the claimant may submit to Transco a claim with details of the amount of the financial loss and the claims reviewer shall advise Transco of the amount (if any) which the User should be paid.

4.3.2 In applying Section F4 in respect of Days during a Network Gas Supply Emergency Critical Transportation Constraint Emergency, amounts payable by Transco pursuant to paragraph 4.3.1 will be taken into account as though such payments were Market Balancing Action Charges payable by Transco for the purposes of Section F4.3.3."

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:

Tim Davis
Head of Regulation NT&T

Date: