

**CODE MODIFICATION PROPOSAL No xxxx**  
**Gas Emergency Cashout Arrangements: Keeping the On the Day**  
**Commodity Market open during a Gas Deficit Emergency**  
**Version x.x**

**Date:** 02/04/2007

**Proposed Implementation Date:** 1<sup>st</sup> October 2007

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this Proposal**

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (\*) when first used. This Modification Proposal, as with all Modification Proposals, should be read in conjunction with the prevailing UNC. For the purposes of this Modification Proposal, “Gas Deficit Emergency” or “GDE” or “NGS(GD)E” shall mean a Network Gas Supply Emergency Gas Deficit Emergency\*.

The GB gas regime is becoming increasingly reliant on non UK Continental Shelf (UKCS) sources of supply, these are occasionally referred to as “merchant gas supplies”. Powers granted to the National Emergency Co-ordinator (NEC)\* and the actions of the DTi are only able to “command and control” on-shore facilities, UKCS producers and Storage Operators\*. Under the NEC Safety Case\* arrangements, the use of the On the day Commodity Market (OCM) is suspended at the start of a Stage 2 National Gas Supply (Gas Deficit) Emergency\*, (NGS(GD)E). This means that all trading on the OCM, whether between National Grid and a Shipper User\* or between Shipper Users, would be suspended thereby removing one possible “route to market” for non-UKCS gas supplies which could be brought to GB market during an emergency. It should be noted that other market trading platforms and submission of trade nominations are unaffected by the declaration of a stage 2 NGS(GD)E.

Ofgem recently chaired a series of workshops, under the heading of “Options for the design of gas emergency arrangements”, to consider amongst other things how the UK’s ability to draw upon or attract additional gas resources into the GB network throughout an Emergency event (Stage 2 and higher) might be enhanced.

This Proposal is being brought forward with the intent of:

- 1) Opening the OCM to Shippers during a Stage 2 (& beyond) NGS(GD)E.
- 2) Describing a market reflective and dynamic emergency cashout pricing methodology throughout the emergency.

Section Q 3.2.2 (c) states that upon declaration of stage 2 of a NGS(GD)E, the application of Section D (other than paragraph 2.4 thereof) will be suspended, National Grid NTS\* will cease to take Market Balancing Actions\* and that the provisions of paragraphs 4.1 and 4.2 shall apply. A key provision of paragraph 4.2 (4.2.4 (a) & (b)) pertains to the setting of the “relevant price” that is used to clear a User’s Daily Imbalance\* following a NGS(GD)E. Under the current arrangements the “relevant prices” are set to those prices derived within Section F paragraphs F1.2.1 and F1.2.2 and in each case they are set by reference to the Day\* on which the NGS(GD)E (stage 2 and higher) started.

It is proposed that upon declaration of a Stage 2 (or higher) NGS(GD)E:

- Users, with the exception of National Grid NTS, shall retain the ability to trade on the OCM with other Trading Participants. National Grid NTS will continue to suspend its use of the OCM in line with the transition to physical balancing of the supply & demand position via the NEC.
- Trades carried out between Users in this manner shall be eligible for the derivation of the “relevant price” defined in Q4.2.4 (a) & (b).
- That the “relevant prices” shall be calculated for each Day during a Gas Deficit Emergency (stage 2 and higher).
- The “relevant price”\* used to clear gas balances for each Day within the Emergency period, including the Day on which the emergency is called, as stated in Q4.2.2 (a) i.e. positive imbalances, shall be derived thus; the price in pence per k/Wh equal to the volume weighted average of all the Market Offer Prices\* taken for that day.
- The “relevant price” used to clear gas balances for each Day within the Emergency period, including the Day on which the emergency is called, as stated in Q4.2.2 (b) i.e. negative imbalances, shall be derived thus ; the price in pence per k/Wh equal to the highest Market Offer Price taken for that day.
- On Days during the NGS(GD)E (stage 2 and higher) where no eligible trades are made on the (OCM) the “relevant prices” for that Day shall default to the previous day’s “relevant price”. On Day 1 of the emergency there is the possibility that no eligible trades will be undertaken to set the cashout prices, (i.e. no Market Balancing Actions are taken by National Grid NTS prior to declaration of the Emergency and, no Shipper to Shipper trades are taken after declaration of the Emergency), in this situation the cashout prices derived for Day 1 of the Emergency will default to the cashout prices applicable to the Day prior to the Day on which the Emergency was declared.

In support of this Modification Proposal we have undertaken a review of the

provisions set down in Section Q4.1 'Suspension of certain provisions of the Code'. Currently within this section there is listed a number of provisions which come into force upon declaration of a NGS(GD)E Stage 2 and higher. The following measures are proposed to support the intent of this Modification Proposal and to ameliorate a number of potential inconsistencies contained in Section Q. National Grid NTS would stress that these changes are non contentious in themselves and are proposed solely to support the intent of this Modification Proposal and to resolve certain inconsistencies in the UNC. The changes proposed are;

- Q4.1.1(b) shall be removed. For the avoidance of doubt during a NGS(GD)E Stage 2 & higher all the provisions of Section C – Nominations shall apply.
- Q4.1.1(c) shall be removed as the provisions relating to the use of the OCM during a NGS(GD)E Stage 2 & higher will be described elsewhere in Section Q.
- Q4.1.1(d) shall be removed as the potential deferment of the Exit Close out date specified in Section E has no bearing on the operation of the system either during or after an Emergency.
- Q4.1.1(f) shall be removed. We believe that it is beneficial to maintain the NDM Process in tact during an Emergency since although the quality of the information may be of a lesser standard than is normally the case it is preferable that Users have access to such information as is available.
- Q4.1.1(i) shall be removed. There are no specific benefits to the management of an Emergency realised by the suspension of the provisions laid down in Section G – Supply Point Administration. However the Distribution Network Operators may feel that they would prefer these arrangements to remain suspended because of the administrative burden it may place on them at a time when they are focussed on the management of the Emergency. We would therefore seek views on this as part of the development of the Proposal.

**b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

**c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

National Grid NTS seeks this Modification Proposal to proceed to the Workstream for discussion and development in accordance with Section 7.4 of the modification

for discussion and development, in accordance with Section 7.4 of the modification procedures in the UNC.

Whilst the issue has been discussed at the industry forum “Options for the Design of Gas Emergency Arrangements” led by Ofgem, National Grid NTS feels that sending this Proposal for discussion and development at the Transmission Workstream would be beneficial and will enable timely consideration of the merits of the Proposal.

## **2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives**

(a) *“the efficient and economic operation of the pipe-line system”* by enabling another “route to market” to be available for non UKCS gas supplies which are occasionally referred to as “merchant gas supplies” to enter the GB system Users may be able to provide greater cooperation with the NEC to reduce the depth and/or duration of a stage 2 (or higher) NGS(GD)E.

(d) *“so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers;”* National Grid NTS anticipates that by enabling another “route to market” Users will have greater opportunity to trade out imbalances and that the resulting market reflective dynamic cashout prices set during the emergency will lead to improved cost targeting. Users will therefore be encouraged to take appropriate actions through which an emergency might be avoided or its extent and duration lessened and as a result this Proposal might also improve security of supply.

(e): The introduction of the Proposal might improve *“the 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”* by ensuring that market based dynamic cashout prices are set throughout a NGS(GD)E.

## **3 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

Implementation could have a positive impact on the extent and duration of a National Gas Supply (Gas Deficit) Emergency (Stage 2 & beyond) by increasing Users’ options to deliver additional quantities of ‘merchant’ gas into the System.

No adverse implications in respect of industry fragmentation have been identified.

## **4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

### **a) The implications for operation of the System:**

Implementation increases User options to deliver gas to the System during a NGS(GD)E (stage 2 & beyond) and may therefore assist the Network Emergency Co-ordinator to minimise the extent and/or duration of an emergency. Implementation would also provide dynamic market price signals to encourage merchant gas flows to the GB market during an

emergency. Furthermore the replacement of a fixed price cashout scheme where prices might be either too high or too low, by a dynamic market reflective scheme, will provide more appropriate and consistent incentives on Users to deliver gas to the GB system. Implementation would therefore have a positive impact on the efficient operation of the System.

**b) The development and capital cost and operating cost implications:**

No development or capital costs have been identified.

However by providing an additional 'route to market' for merchant gas supplies this Proposal may lead to a reduction in the depth and/or duration of an NGS(GD)E and may therefore lead to a reduction in the operating costs incurred during an Emergency.

**c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

No proposal is made for the specific recovery of implementation costs.

**d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

No such consequence has been identified.

**5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

No such requirement has been identified

**6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

No such implications have been identified.

**7 The implications for Users of implementing the Modification Proposal, including:**

**a) The administrative and operational implications (including impact upon manual processes and procedures)**

**b) The development and capital cost and operating cost implications**

No development or capital costs have been identified. However costs would be incurred by the relevant Transporter if an Emergency were declared. Therefore if implementation of the Proposal were to reduce the extent and

duration of a NGS(GD)E (Stage 2 & beyond) there could be a reduction in the costs associated with managing such an Emergency event.

**c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

The replacement of a fixed price cashout scheme where prices might be either too high or too low, by a dynamic market reflective scheme, may change the level of contractual risk on Users.

**8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

**9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

No such consequences have been identified

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

**Advantages**

The Proposer considers that the Proposal would deliver the following benefits;

- (1) It would provide an additional means for Users to deliver 'Merchant' gas to the System during an Emergency event potentially reducing the extent and/or duration of the Emergency.
- (2) The Proposal would replace the current fixed cashout prices with dynamic market derived cashout prices throughout the Emergency thereby enabling prices to be responsive to the changing conditions during the emergency event.

**Disadvantages**

The Proposer has not identified any disadvantages.

**11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

**12 Detail of all other representations received and considered by the Proposer**

**13 Any other matter the Proposer considers needs to be addressed**

**14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

It is recommended that the Modification Proposal is implemented by 1<sup>st</sup> October 2007.

**15 Comments on Suggested Text**

**16 Suggested Text**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)**

**Proposer's Representative**

*Name (Organisation)*

**Proposer**

*Name (Organisation)*