

# **Supporting Information in relation to the FMR for UNC Modification Number 0021 “Revision of the Emergency Cash-Out Arrangements”**

## **Introduction**

This note has been prepared, following a request by a Panel Member, to further inform the UNC Modification Panel in regard to determining a Panel recommendation for Modification Proposal 0021 “Revision of the Emergency Cash-out Arrangements”. A number of references within the Final Modification Report for the Proposal have been identified where in Transco NTS’ view misinterpretations have been included. This note provides information of our view in relation to some of the content of the FMR and we hope that the Panel finds this useful.

## **Licence Obligations**

The response from BGT (FMR Section 3) states “The licence obligations require Suppliers, through their Shippers, to provide for adequate cover of their demand obligations to an appropriate security standard.” Transco NTS considers that this obligation would only appear to apply in relation to Shippers or Suppliers arranging for transportation outside the auspices of the Uniform Network Code (UNC) and that therefore it is incumbent on the UNC to provide the necessary incentives on parties to the UNC to encourage this provision.

## **Demand-side Contracting**

The response from TGP, (A.7.1 Transco NTS Contracting...) suggested that NTS should “take the lead in offering a standard demand side contract and replicate the success of transporter agreed demand-side services in the electricity market.”

Transco NTS considers that the Gas Act prevents Transco from entering into arrangements for delivery or Offtake of gas from its system with anyone other than a Shipper and, therefore, Transco NTS could not directly replicate the demand-side services it enters into in the electricity market. We believe that shippers have the primary role in managing the supply/demand balance with the UNC providing the necessary incentives and Transco NTS providing the Residual System Balancer role for which we believe we have the correct arrangements to fill this obligation. Transco NTS would note that the services referred to in relation to the electricity market are also more analogous to Operating Margins in Gas rather than Market Balancing Actions.

## **Market Suspension**

The response from BGT (A.10 Market Suspension in Stage 1 Emergency), “expressed concerns about the point at which the Market becomes suspended.”

The Modification Proposal does not include any changes to the arrangements for market suspension in an emergency. Based on the prevailing UNC, market suspension would occur at stage 2 of a Network Gas Supply Emergency (NGSE) Gas Deficit Emergency (GDE) and this would remain the case if the Proposal were to be implemented. The Proposal covers changes to Emergency Interruption, which occurs at stage 1 when the market remains open in a GDE.

## **Price Signals and Incentives**

The response from SGD, (A.12 Long term energy supplies to UK), suggests that parties importing gas “would be under-rewarded in an emergency” and that the Proposal “makes offering such gas to the market financially risky”.

Under the prevailing arrangements, post market suspension the cash-out price is the 30-day average SAP for both over delivered (long) and under delivered (short) Users. The impact of the proposal would be to make a payment of on-the-day SAP for long shippers, to the extent that they are over delivered. In the event of a GDE, Transco NTS would expect this to be greater than the 30-day average SAP payment made under the prevailing arrangements.

Any market balancing actions taken prior to market suspension would be honoured post-market suspension and hence there is no risk associated with delivering gas against a market balancing action.

The response from SSE, (A14 Types of Emergency), suggests that the Proposal might “penalise those making a positive contribution by only paying them the 30 day SAP.” This is incorrect. The proposal would result in those Users that had over delivered being cashed-out at on-the-day SAP post market suspension. In the event of a GDE, Transco NTS would expect this to be greater than the 30-day average SAP payment, which is made under the prevailing arrangements.

## **Duration of an emergency**

In A15 BGT make reference to the duration of an emergency and the need for further consideration of the method of recovering from such situations. Transco NTS does not consider this to be relevant to the Proposal and as such should not be included in the FMR.

## **Effect on Balancing Neutrality**

Section B6 could be confusing as the anticipated affect of the Proposal on Balancing Neutrality is that it is most likely to result in a more positive smear to those Users who where balanced or close to balance, at the time of the emergency interruption action, in comparison to the existing arrangements.

## **Claims Process**

A number of respondents (A.6 Disputes and Appeals process) raised concerns regarding the absence of appeal provision in regard to the EIV. The Modification Proposal does not include changes to the emergency cash-out claims process as that process only covers the value of “gas delivered” to the system on a day in question. However, if any UNC party felt that an extension of the claims process should be developed as a response to this Proposal then this could be the subject of a future modification proposal.