

Representation For. 0044
"Revised Emergency Cash-out & Curtailment Arrangements"
Version 1.0

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Slant: For
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Abstract

Representation - Modification Proposal 0044: Revised Emergency Cash-out & Curtailment Arrangements

Thank you for the opportunity to submit our response to the above Modification Proposal
Support for Implementation

On balance, Transco - Distribution offer its qualified support for the implementation of this proposal.

Transco - Distribution believes that the stated aim of the proposal, that is to ensure that shippers are incentivised to a greater extent to balance their portfolios to the maximum extent up to the point that either a Stage 1 or Stage 2 Emergency Notice is issued by the NEC, would result from implementation . In this respect Transco - Distribution believes that the relevant objectives would be furthered by ensuring that the economic efficiencies provided by the market remains in force for longer, as the likelihood of an emergency being declared by the NEC is reduced, thereby ensuring the continuation of competition between shippers in circumstances that may otherwise have resulted in an emergency.

Transco - Distribution believes that by far the strongest incentive set by the proposal is the SMP Cash-Out element of the proposal. In this respect, Transco - Distribution agrees that to send the strongest market signal, SMP buy should be the price applied to gas imbalances. Modification Proposal 0042 advocates a lower cash-out price. Transco - Distribution believes that this weaker incentive would not be sufficient to signal to shippers to self-curtail demand at times of high total system demand and high gas prices. One possible draw-back of this could be that, in the event that a shipper suffers significant supply problems coincident with the emergency, significant volumes of gas could be cashed-out at SMP. The ECQ process would exacerbate this problem by "locking-in" any pre-emergency imbalance which the shipper would be unable to resolve once an emergency is declared.

Hence, Transco - Distributions support for implementation is limited to the setting of the SMP Cash-Out balancing incentive.

With regards the remainder of the proposal, Transco - Distribution is of the view that there are aspects which should be given some further thought as it is not convinced that the ECQ calculation process would in practice or that the submission of P70 FIRM forms is guaranteed to provide sufficiently timely information in the run up to an emergency to effect its declaration.

Also with respect to the ECQ calculation, emergency procedures allow for entire interruptible demand or a portion of the interruptible load to be interrupted without resorting to firm load-shedding. Where this is the case the shipper may well be interrupting sites, submitting P70 and P70 Firm forms right up to the point an emergency is declared with the intention of excluding them from its ECQ. Operationally, however, the decision to call an emergency would be based on the national balance between Terminal Operators' Terminal Flow Notifications and DN's Offtake Profile Notifications ("OPNS"). If shipper initiated demand management is not reflected in the OPNs, and in the run-up to an emergency it would be difficult to assess the confidence levels associated with the P70 notifications, then the actions of the shippers may not prevent an emergency, (although the P70 notifications would ensure that the demand associated with the relevant sites would not be included in a shipper's ECQ). Given the level of cash-out, there is considerable scope for shippers to dispute the validity of a decision to declare an emergency, where they believe that the demand reductions initiated by them should have been sufficient to avoid the emergency, but these have not been factored fully into DNCC's OPNs. The key dependency on this point is for a shipper to ensure that the P70 is submitted in a timely manner and that the demand is removed promptly from the network. This is not efficient operation of the pipeline system but, on balance, over interruption may be better than invoking emergency procedures.

Transco - Distribution believes that successful implementation is dependant on sufficient information being available from NTS, to ensure that shippers are able to make the right economic decisions right up to the point that an emergency is declared. While the market provides one such signal, further information may be required to ensure that shippers decisions to curtail firm demand are optimised. Transco - Distribution is clearly concerned that in the event of a prolonged cold winter, high levels of unnecessary pre-emptive shipper-led curtailing of firm load could result in a reduction in throughput and the consequential reduction in transportation revenue. Additionally, Transco - Distribution could run the risk of incurring significant reputation damage were firm sites to be instructed to cease consuming gas without an emergency being in place. While these "interruptions" would be contractual by the parties involved and not dependant on the transportation capability of the network, they could be construed by the uninformed as reflective of under investment in network capacity.

Practical Implementation

Transco - Distribution is also concerned about implementation. On the basis that the principal trigger for invoking these rules is a depletion of the Storage Monitor resulting in a Gas Deficit Emergency ("GDE"), in theory, this could be required early in the Winter. Implementation on Transco - Distribution's part requires some systematisation of the ECQ calculation as well as training of operational back-office staff to manage the ECQ calculation and processing of the P70 Firm notifications. Given that this activity could be required in real time with an emergency, these new arrangements would need to be thoroughly tested. Also, in terms of implementation Transco - Distribution has a concern regarding the ability of shippers to reflect these arrangements in the contractual arrangements with end consumers and to this end, Transco - Distribution believes it would be beneficial if Ofgem carried out a "readiness" investigation and report to the industry that these new arrangements have been implemented across the supply chain.

In terms of systematisation, Transco - Distribution is investigating what work would need to be commissioned to support the ECQ calculation. The proposal suggests that the solution lies with a

modification to an existing system, Interruption Manager. On reflection this system would not provide a solution since it does not process energy quantities: it only deals with corrected volumes. Transco - Distribution believes that it would be far better to use closed-out energy values since these quantities have already had CVs factored into the offtake volumes and are known to respective shippers. Transco - Distribution is investigating a system solution that could be used to match a database of historic consumptions by site with a database of the sites ordered to stop offtaking gas by transporters. Also, in this matter, Transco - Distribution is also of the opinion the [D-1] value should have no part to play in the ECQ calculation as, generally, D-1 consumption would not be reflective of gas offtaken on D, and D-1 would not be a closed-out energy value. Also, Transco - Distribution would also like to seek further clarity regarding the inclusion of interruptible priority sites in the proposed arrangements.

In terms of calculation the ECQ, as this is essentially a further balancing incentive, Transco - Distribution believe that it could just as well be calculated by Transco NTS. Transco - Distribution would be prepared to provide Transco NTS with information relating to the any P70 forms submitted and the interruptible or firm sites it had issued orders to cease offtaking gas. The presence of a central team to process the ECQ would seem to be a more efficient way to discharge this particular aspect of the proposal. Transco - Distribution also has concerns about the considerable potential for disputes to the ECQ value bearing in mind the shipper's exposure to the cash-out price. As the ECQ process deals with the quantity of gas that would be offtaken there is also considerable scope for disputes in relation to the exact time that the site stopped consuming gas and does call into question the efficiency and diligence of the transporter when issuing notice to end-consumers to stop consuming gas. In other words, where a shipper is in balance when an emergency occurs, it will only neutralise its ECQ where its ECQ equals the gas demand physically removed from the system. Over-estimated ECQs would be a concern for shippers and would be the subject of significant after-the-day challenge, review and reconciliation. Again, Transco - Distribution believe as this is essentially a reconciliation of energy matter and would be best managed by Transco NTS as counter-party to any reconciled traded energy.

Summary

To summarise, Transco - Distribution believes that the incentive to balance should be strong, and hence supports the introduction of SMP cash-out. However, it does not believe that the ECQ calculation process would operate as efficiently in practice as it would in theory.

Transco - Distribution remains unconvinced of the operability of the ECQ mechanics. Although, if Transco NTS believe it is essential as an additional balancing incentive, then it should put in place procedures for managing the ECQ process. In this respect, Transco - Distribution believes that the ECQ calculation should use as its starting point closed out energy values for estimating consumption, (already used by both DNs and NTS for transportation and energy billing purposes), and not within day or D-1 volumes.

Yours Sincerely

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