

Modification Report
Storage Monitor Adjustment
Modification Reference Number 0050

Version 4.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because it considered that if this Modification Proposal "were to follow non-urgent procedures, there is a risk that, were the modification proposal to be subsequently implemented, there would be insufficient time for the market to properly consider the likely impact of the modification and react accordingly, prior to this coming winter."

Ofgem also considered that if this Modification Proposal were "not treated as urgent, this could have an impact on security of supply for the winter ahead."

Procedures Followed:

The procedures agreed with Ofgem for this Proposal are:

Sent to Ofgem requesting Urgency	21/09/05
Ofgem grant Urgent status	26/09/05
Urgent Modification Proposal issued for consultation	26/09/05
Close-out for representations (10 day consultation)	10/10/05
Final Modification report issued to Joint Office	17/10/05
Modification Panel Recommendation	24/10/05
Ofgem decision expected	01/11/05

1. The Modification Proposal

Defined Terms. Where UNC defined terms are included within this Proposal the terms shall take the meaning as defined within the UNC. Key UNC defined terms are highlighted by an asterisk (). This Proposal, as with all Proposals, should be read in conjunction with the prevailing UNC.*

The Proposer stated that this Proposal seeks to:

“Amend the circumstances under which Transco NTS may notify to Users*, adjustments made to the Safety and/or Firm Gas Monitors under paragraph 5.2.5 of Section Q – Emergencies, of the Uniform Network Code. This paragraph currently enables Transco NTS to reduce or reallocate the Monitors in certain circumstances. The Proposal seeks to extend this ability to enable Transco NTS to increase or reduce these Monitors where necessary, to reflect changes in Transco NTS’s estimates of expected deliveries to or offtakes from the Total System*.

Background:

To ensure that sufficient gas is held in storage to preserve the ongoing safe operation of the gas transportation system, and to ensure continued supplies to domestic, NDM and other priority loads, the concept of Safety Monitors was introduced into the Network Code in October 2004. The UNC requires Transco NTS to publish the Safety Monitors by 1 October in each gas year in respect of each Storage Facility* type; Long Duration Storage (Rough), Medium Duration Storage (MRS) and Short Duration Storage (LNG).

In addition, the UNC requires Transco NTS to calculate and publish Firm Gas Monitors based upon the forecast of Annual Firm Severe Demand*. The Firm Gas Monitors are published solely for the purpose of providing further information to the market, whereas Transco NTS will use the Safety Monitors as the trigger mechanism for taking additional action to avoid an actual NGSE (as defined in the GS(M)R).

Following publication of the Monitors, Transco NTS keeps under review the information upon which the monitors have been calculated and may as a result of the analysis undertake a number of actions as described in paragraph 5.2.5 of section Q.

These are:

- a. reallocate the Safety Monitor and/or the Firm Gas Monitor between Storage Facility Types in order to enhance the security provided by current storage stocks;
- b. reduce a Safety Monitor and/or a Firm Gas Monitor to reflect longer-term demand forecasts (for example, during the later Days of the Winter Period);
- c. adjust a Safety Monitor and/or a Firm Gas Monitor to reflect the occurrence of severe weather.

The result of these actions is that the aggregate level of the Safety Monitors and/or Firm Gas Monitors during the course of the winter will be maintained or reduced; the possibility of increasing the aggregate level of the monitors is excluded from the existing range of options.

However the preclusion of an upward adjustment in the aggregate level of the Safety and Firm Gas Monitors raises a potential discrepancy between Transco NTS rights under the UNC and its obligations under The Gas Safety (Management) Regulations.

Under GS(M)R Transco NTS is required to take action to minimise the risk of a NGSE. This is the obligation that drives Transco NTS approach to the Safety Monitors. An implication of this is that Transco NTS is obliged to keep the Safety Monitors under review and to make changes where necessary.

The data used in the assessment of the monitors is necessarily uncertain as it reflects the best information available at the time the monitors are set. New information may require Transco NTS to reassess and re-set the monitors at a later date. Transco NTS is therefore seeking this UNC modification to bring its rights under the UNC in line with its obligations under the GS(M)R.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The Proposer stated that its Proposal:

“if implemented, would better facilitate the following relevant objective as set out in our GT Licence:

In respect of paragraph 1.c): Transco NTS considers that this Proposal might improve, *“the efficient discharge of the licensee’s obligations under this licence”*. The Proposal would improve the Transporter’s ability to comply with its licence obligation to operate the pipe-line system in a safe manner.

In respect of paragraph 1.e): Transco NTS considers that this 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”*. The Proposal would increase the Transporters ability to ensure that the supply security standards are met.”

NGD considered that in revising the UNC to include the proposed changes to the storage monitors, *“Transmission would clearly set out its intention to take all appropriate and necessary steps to prevent a potential or actual gas deficit emergency and ensure the continued economic and efficient operation of its system.”*

GDF considered that, *“this proposal would undermine standard special condition A11.1(d) securing effective competition between shippers and suppliers.”* STUK agreed with this view adding that, *“There is no economic incentive for shippers described in this proposal and the ability for Transco to hold a suppliers gas in store when it may have been planned to be used for meeting contractual obligations, exposes the supplier to the market and potentially high gas prices which will ultimately be passed on the consumers.”*

SGD stated that the Modification Proposal, *“does not further the Relevant Objectives as it intervenes in the commercial decisions of market participants thereby undermining effective competition between shippers and suppliers. It could undermine long-term security of supply by negatively impacting the economics of gas storage projects. It creates yet more confusion and uncertainty regarding the regime for this winter while demonstrating no obvious improvement.”*

CSL did not believe, *“that Transco’s efficient discharge of its licence obligations with regards to safety can be said to be enhanced by allowing Transco the right, free of charge, to reserve other people’s assets. It cannot be efficient for the costs of Transco discharging its obligations to be arbitrarily allocated to other parties.”*

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

The Proposer believed that the Modification Proposal, if implemented, would enable the relevant Transporter to ensure that it can meet and comply with its

supply security standards and licence obligations to operate the pipeline system in a safe manner.

SGN considered that this Modification Proposal would, *“assist in increasing security of supplies”*

SSE did not agree *“with the argument that the provision of reasonable economic incentives for suppliers to meet security standards will be enhanced by this proposal. The unforeseen consequence of implementing this proposal could be either to deter parties from withdrawing their gas from storage in case it led to an increase in the monitor levels, or alternatively to prematurely withdraw their gas from storage so as to ensure that they can access it. Either way such behaviour would have a detrimental impact on the operation of the market over the coming winter.”*

CIA believed that, *“Transco’s current ability to decrease, adjust or reallocate the Monitors is sufficient, and can see little value in allowing Transco to raise the monitors, and so increase the likelihood of a Network Gas Supply Emergency (NGSE).”*

E.ON stated that, *“The proposal could create an emergency, rather than prevent one, in particular, a rapid one, where the industry has no time to respond to avert that emergency and balance their position.”*

STUK considered that, *“The implementation of this modification has significant implications on the security of supply of the Total System. STUK believe that if implemented the modification would lead to high levels of uncertainty for shippers and potentially increasing the risk of a safety monitor emergency. As it could act as an incentive to shippers to empty their storage stocks sooner than planned to prevent gas being locked in store by a sudden change in safety monitor.”*

STUK stated that, *“If National Grid Gas are able to, at any time and with no commercial implication to themselves (other than balancing implications) alter the monitor levels the number of potential and actual gas emergencies will increase as this proposal limits the actions that can be taken by shippers to avert an emergency.”*

TGP believed that, *“the relevant objectives are not better facilitated by providing Transco with the wide-powers of discretion envisaged under mod proposal 50, since it increases the risk of arbitrary technical emergencies that present an unfair financial exposure to all shippers and undermines long-term security of supply.”*

EDF did not believe that, *“Transco needs the right to be able to increase monitors to minimise the risk of a Network Gas Supply Emergency (NGSE)”*. EDF stated that, *“It has not been proven that interrupting gas in store will help resolve a NGSE. Indeed, it is more likely that a NGSE will be instigated if Transco raises certain storage monitor levels to a level where they are more likely to be breached thereby curtailing gas in store and precipitating a Gas Supply Emergency.”*

In its response, NGT sought to clarify the circumstances in which it would make changes to the Storage Monitors by proposing revisions to the legal text and stating that *“changes to the Storage Monitors will only be made where changes*

to the underlying supply and demand position are sufficiently material to warrant such a change.”

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

No such implications have been identified.

b) development and capital cost and operating cost implications:

No such implications have been identified. However no capital and development costs are anticipated.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No such cost recovery has been identified.

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

No such consequences have been identified.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence has been identified by the Proposer.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No such implications have been identified by the Proposer.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

EDF noted that, *“Shippers procure storage under contract 1 or more year’s ahead”* and suggested that the implementation of this Modification Proposal prior to this winter, *“will significantly undermine the value of Shippers’ storage bookings whilst increase shippers risk ahead of the winter period. This can not be in the best interest of maintaining system security.”*

EDF advised that it contracts for storage every year to balance its NDM exposure from large changes in demand due to changes in weather. EDF stated that, *“The implementation of this modification would significantly increase our*

financial exposure and risk positions for this winter, which might ultimately have a negative impact on customer charges.”

E.ON stated that, *“The proposal would also make it very difficult for Users to plan for this winter, potentially threatening security of supply.”*

CSL did not believe that it could be argued that, *“the provision of reasonable economic incentives for suppliers to meet security standards will be enhanced by denying (without compensation) shipper/suppliers the right to use storage they have bought and paid for to meet their balancing requirements.”*

GDF stated that, *“Currently storage monitors are set for the coming winter and this adds some certainty for shippers who have a measure of the deliveries available to them through storage. This modification, by allowing storage monitors to be increased within winter introduces uncertainty to both the level of deliverability available to shippers, despite their contracted position, and also to the commercial value of storage. This adds commercial risk to shippers and potentially additional costs may be passed through to consumers in the form of increased risk premia.”*

SSE believed that, *“as ultimately the risk of any increase to the Storage Monitors is borne by Storage Operators, shippers and customers, this could have unforeseen consequences on the wholesale gas market.”*

SSE stated that, *“Clearly if implemented this proposal would add to the uncertainty that any party with an interest in storage facilities faces and heighten concerns that storage users might not only be unable to access the rights that they have purchased to meet the demands of their customers over the winter period, but also be denied such rights without compensation.”*

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

PGL stated that, in its capacity as developer of the Portland Gas Storage Project, it is entering into a stage of *“potentially significant investment”* and stated that, *“this investment is certainly not founded upon the arbitrary sequestration of our asset”*.

PGL noted that, *“the security of supply to customers supplied with gas from Transco's network forms part of the strategic plan for our proposed investment in the Portland Gas storage project”*. PGL believed that consultation on this Modification Proposal, *“serves only to leave us confused as to the intended basis for the operation of the UK gas market.”*

NGD noted that any additional risk to the industry resultant from this proposed change, *“has materialised in a market that is essentially short on supply, and in this context, it is foreseeable that implementation could cause the cost of gas to consumers to increase.”* NGD considered that, *“Implementation, therefore, may not be in interest of customers in terms of gas prices but is in the best interests of customers in terms of security of supply.”*

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

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

No **specific** advantages and disadvantages were identified. However, upon reviewing representations, the SME has determined the following views:

Advantages

- The Proposer considered that it would, “Bring Transco’s rights under the UNC in line with its obligations under the GS(M)R.”
- The Proposer considered that, “It would allow Transco NTS to provide better monitor information in a timely manner.”
- NGD considered that it *“is in the best interests of customers in terms of security of supply.”*

Disadvantages

- The Proposer considered that it, “May increase the level of uncertainty for Users in developing their balancing strategy”
- The Proposer considered that it, “May affect other parties in the gas supply chain including End-Users and Storage Operators.”
- CSL considered that, *“Interference in the commercial operation of other parties’ assets in this manner adds risk to new storage build and deters future investment.”*
- NGD considered that it *“may not be in interest of customers in terms of gas prices”*.
- TGP considered that it *“penalises all shippers, in particular those shippers/suppliers who in good faith had secured storage supplies to meet available demand.”*

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following 14 parties:

Portland Gas Limited	PGL	Not in Support
EDF Energy	EDF	Not in Support
Centrica Storage Ltd	CSL	Not in Support
Scotia Gas Networks	SGN	Support
British Gas Trading Ltd	BGT	Comments
Chemical Industries Association Ltd	CIA	Not in Support
E.ON UK	E.ON	Not in Support
Gas de France ESS (UK) Ltd	GDF	Not in Support
National Grid Gas plc (UK Distribution)	NGD	Support

National Grid Gas plc (UK Transmission)	NGT	Support
Shell Gas Direct	SGD	Not in Support
Total Gas and Power Ltd	TGP	Not in Support
Statoil (UK) Ltd	STUK	Not in Support
Scottish and Southern Energy Plc	SSE	Comments

Ten respondents (PGL, SGD, CIA, CSL, EDF, E.ON, STUK, TGP and GDF) did not support the Modification Proposal

Two respondents (BGT, SSE) offered comments

Three respondents (SGN, NGD, NGT) supported the Modification Proposal.

UNC Alignment with Safety Case

NGT stated that, *“the intent of this proposal is to align its rights under the Uniform Network Code in relation to the upward adjustment of the Safety and/or Firm Gas Monitor levels with the obligation placed on it by the Gas Safety (Management) Regulations to take appropriate actions to minimise the risk of a Network Gas Supply Emergency.”*

BGT expressed concern that, *“statements made that failure to make such a change could lead to breaches of the relevant Safety Case(s). Since Shippers are not directly involved in the preparation of the Safety Case we feel that it is unreasonable to imply a forced change to the UNC on the basis of a bilateral agreement between the Transporter/ NEC and the HSE.”*

STUK stated that, *“The amending of the NEC Safety Case without consultation of the Industry has again lead to discrepancies between it and the UNC, creating potential unacceptable risks for all industry parties.”*

TGP noted that, *“the full Safety Case is not made available to Shippers. It is therefore unclear whether the proposal is a valid requirement and interpretation, by Transco, of their Gas Safety (Management) Regulations (GS(M)R) obligations.”*

SGD noted that, *“Transco NTS refers to its obligations under the Gas Safety (Monitor) Regulations (GSMR) and ‘potential’ inconsistencies. These potential inconsistencies rest largely on Transco NTS’s own recently developed interpretation. We are surprised that this was not noticed before, particularly given the extensive discussion and consultation which resulted in NWC 0710 being implemented.”*

EDF considered that, *“It is not right that the Transporter can change market rules which have existed since they were introduced in 1996 under the pretence of system security. To do so undermines the fully liberalised and competitive market in which gas Shippers operate and actually serves to decrease levels of system security through the extra complexity these ‘centrally controlled’ arrangements will bring during tight supply periods.”*

CIA considered that, *“The wording of 5.2.5 (c) does not prevent Transco from raising the Monitors to reflect the occurrence of severe weather that may impact supply and will impact demand. The CIA believes that the term “adjust” implies that Transco can both decrease or increase the monitors, and so feels that this provides adequate protection against their GS(M)R obligations.”*

At the Transmission Workstream meeting held on the 6th October 2005, NGT provided an example of when an upward revision of the storage monitor may be needed during the winter. NGT suggested that this could arise if, *“there was new information about a sustained shortfall”*. Under such events UNC section Q paragraph 5.2.5 (c) would not be applicable as it only refers to instances where it is required to reflect severe weather.

CIA noted that, *“There are benefits in allowing Transco to increase the monitor levels in certain circumstances. For example if beach supplies were lower than expected, or if severe weather demand was greater than expected. However lower beach supplies will only become relevant in the occurrence of a severe winter, or if there is a major outage. In the event of severe weather the CIA believes Transco is able to adjust the monitors, and in the event of a major outage in normal weather, the reduced demand will help to ensure that the Safety Monitors continue to protect priority sites.”*

Process issues

Four respondents (EDF, CIA, SSE, STUK and SGN) questioned why this Modification Proposal was not raised earlier in the year. They believed that consultation earlier in the year would have provided greater opportunity for industry consultation and allow sufficient time for Users to cover any exposure to storage monitor adjustments.

EDF noted that the relevant changes to the Safety Case relating to this Modification Proposal took place last December, *“with no industry consultation so we fail to understand why they had not spotted this requirement earlier.”* EDF stated that, *“If dwindling supplies are quoted as a reason then again we fail to understand why Transco didn’t spot the decline of the UK gas supplies earlier than 2005 as a reasonable and prudent operator when figures presented in their Winter Outlook Reports in 2001 show that the UK would be a net importer in 2005/06.”*

BGT raised concerns relating to the process stating that this Proposal raises, *“further uncertainty affecting Users assessment of their plans for gas supplies and use of storage facilities for this and future years.”*

SGD could not, *“recognise Transco NTS’s assertion that by making this proposal urgent it ‘provides sufficient time for the industry to put the required arrangements in place for the coming winter’. We do not know what ‘required arrangements’ Transco NTS considers that the industry can reasonably put in place at such short notice. Instead all that Transco NTS has done is created uncertainty and risk for its customers (shippers) and then for gas consumers.”* SGD believed that, *“The Authority will also need to consider whether the number of changes being implemented at short notice is creating such uncertainty and confusion in the industry as to undermine security of supply.”*

Further evidence required

CIA did not believe that, *“Transco in this instance has provided sufficient evidence that it should be able to, or will need to increase the Safety Monitors as they have proposed. We would encourage Transco to adopt the Better Regulation Principles that have been imposed on Ofgem when making any proposals in order to allow industry to develop an informed and accurate view.”*

If Transco were able to offer further evidence for the need and benefit of this proposal the CIA would be prepared to reconsider our opinion.”

Greater definition and justification of adjustment to storage monitor process

Six respondents (BGT, SGD, E.ON, EDF, SSE and CIA) considered that the Modification Proposal lacked any detailed definition regarding the process for adjustment of the storage monitors.

SSE considered that, *“In principle it does not appear unreasonable that Transco NTS should be able to adjust the safety monitor levels in either direction, to take account of changes in the information available to it. However, as drafted the proposal leaves too much to Transco NTS’s discretion and places too much uncertainty on shipper/suppliers who are reliant on storage in order to maintain supplies to their customers.”*

SSE considered that, *“that if Transco NTS is to have the ability to increase the monitor levels, parties should have greater certainty about the specific circumstances under which this could happen. For example:*

- *would there be a materiality test or a minimum percentage change before the levels would be increased; and*
- *would Transco NTS publish the rationale under which it decided to increase the monitor levels?”*

BGT stated that whilst it recognised that, *“the ability to reflect a change in circumstances may be beneficial, the Proposal in its present form is extremely loose in it’s wording and affords the Transporter far too much latitude in setting the level of Safety Monitors. It also lacks any timescale for the introduction of such changes and therefore we believe that there could be frequent alternations to the Safety Monitors at very short notice”*. BGT expressed concern that, *“This would completely undermine the use and value, which Users may attribute to certain facilities”*.

SGD expressed concerns that, *“The industry is being asked to rely on Transco NTS with ‘its estimates’ and ‘any information available’ to it.”*

EDF stated that, *“It is also not clear from Transco’s modification report under exactly what conditions they can be allowed to revise monitor levels. It will therefore become increasingly difficult and confusing for shippers to follow Transco’s signals in periods of high demand.”*

Similar comments were received within the Transmission Workstreams, as a result of which NGT revised the legal text and provided the following statement in its response: *“At the Transmission Workstream meeting held on the 6th October 2005, Transco NTS were requested to review the Legal Text submitted with its original Proposal with a view to providing greater clarity on certain points. In response to the comments raised at the Transmission Workstream, Transco NTS agrees that a document setting out the reasons for any changes to the storage monitors would be appropriate and legal text attached to this Representation includes suggested changes to incorporate the requirements for the provision of this document. The revised legal text also seeks to clarify that changes to the Storage Monitors will only be made where changes to the*

underlying supply and demand position are sufficiently material to warrant such a change.”

Notice periods

Four respondents (BGT, E.ON, STUK and SGD) expressed concerns regarding the absence of any notice period associated with changing the monitor levels.

SGD considered that, *“This proposal does not make clear notice period that would be associated with changing the monitor levels nor does it provide clear criteria.”*

BGT believed that, *“at least seven days notice should be given of any variation to Safety Monitors. Similarly, in order to provide greater stability, we believe that it would be prudent to limit the number of times that the safety monitors could be varied through the winter period. For example, once set the safety Monitors should apply for a minimum period of one month before a further variation can be implemented.”*

E.ON noted that, *“the proposal does not include any form of notice to be given to Users, where Transco intends on increasing the Monitors. This creates unmanageable risk for Users.”*

STUK expressed concern that the Modification Proposal *“will create the opportunity National Grid Gas to make significant increases to monitor levels without notice or discussion with those most affected. Ultimately it could increase the likelihood of an emergency.”*

NGT noted that the Transmission Workstream, held on the 6th October 2005, commented on the need for a notice period prior to any change to the monitor levels. NGT did not consider this, *“to be appropriate as the legislative requirements underpinning the requirement for this Modification Proposal do not facilitate such a notice period. We therefore consider that it would be inappropriate for Transco NTS to delay instigating a change, which was required in order for it to remain compliant with the legislation.”*

Greater transparency of the determination of storage monitor methodology

Six respondents (BGT, CSL, SSE, STUK, TGP and SGD) believed that the Modification Proposal as drafted introduced a Safety Monitor methodology, which was *“totally obscure and opaque to Users”*.

SSE stated that it did not, *“object in principle to Transco NTS having the ability to alter monitor levels in both direction, but strongly objects to the mechanism proposed by which this is done. The reason for this is that the proposed mechanism places undue risk on storage operators, shippers and suppliers, who could see important storage withdrawals halted with little warning and without the means to predict the change.”*

SSE stated that it, *“would like to see the ability to alter monitor levels supported by a clear and transparent methodology and would like to see this methodology form part of the UNC.”*

SSE noted that, *“Transco NTS intends to consult on its System Management Principles Statement in the near future and hope that it will provide greater clarity.”*

BGT believed that for this Proposal to be "acceptable" it required, "greater detail of the methodology to be followed in the determination of Safety Monitor levels and the assessment of the factors which may affect that determination".

BGT stated, "Given that the consequences of resetting the Safety Monitors could be to increase the possibility of entering an emergency (it is possible that the action could immediately trigger an emergency), we believe that the process must be visible and subject to scrutiny and challenge. An initial view of this Proposal may raise concerns only about raising the safety monitor levels. However, it is also necessary to consider the effect of reduction of these levels as this would have significant consequences of a different nature."

TGP considered that the absence of transparency "continues to be a source of concern given the capability for Transco's assumptions/perceptions alone to trigger a potentially unwarranted technical emergency. This concern is exacerbated by the provisions within mod proposal 50, whereby emergencies may arise as a result of information available to Transco alone without an opportunity for the market to comment upon its validity."

EDF agreed with CSL's view that, "The levels of and allocation of safety monitor stock remains un-consulted, opaque and highly subjective and could be influenced by Transco's ownership of short duration facilities and arbitrary Transco assumptions and judgements."

E.ON considered that, "a review of the methodology behind the Safety Monitors is the best way forward to address clear issues that Transco is not confident relying on them, as they stand."

SSE noted that the Storage Monitor Levels were consulted upon as part of NGT's winter outlook report, "await with interest the publication of the methodology used to calculate the 2005/06 monitor levels, which we understand to be imminent." SSE expressed concerns that, "because the methodology lies out with UNC governance arrangements, there would appear to be no scope for them to be modified, except by Transco NTS. Taking into account the powers conferred on the NEC via its revised Safety Case, in our view Storage Operators, shippers and customers are in a worse position going into the coming winter than we were under the old top-up arrangements."

The SME notes that National Grid NTS publishes the "Safety and Firm Gas Monitor Methodology" on its website:

<http://www.nationalgrid.com/NR/rdonlyres/3EEBD2E6-76BE-41E1-B693-5112F044B279/4152/SafetyFirmGasMonitorMethodologyv1.pdf>.

National Grid NTS has advised that a revised Methodology is to be published by the end of October 2005.

Impact on Storage investment and contracting for Storage

Six respondents (CSL, E.ON, STUK, GDF, TGP and PGL) expressed concerns regarding the impact the proposed changes may have on the future investment of storage facilities.

CSL believed that, "Interference in the commercial operation of other parties' assets in this manner adds risk to new storage build and deters future investment."

PGL stated that it failed, *“to understand why Transco are attempting to interfere with the operation of privately owned natural gas storage facilities.”*

PGL did not believe that such a change provided *“signals”* required, *“to provide economic incentives to investors in gas infrastructure nor or in our opinion do they lead to the efficient operation of the gas market.”*

GDF stated that, *“Uncertainty over the commercial viability of storage contracts could have a detrimental impact on future security of supply, shippers may be discouraged to contract for storage by additional uncertainty and planned or new storage projects may no longer be viable.”*

STUK express concern that, *“The ability for National Grid Gas to change the monitor levels will directly influence the market price by limiting the amount of gas available, affecting the efficient operation of the market which will lead to inefficient and insufficient investment. It will also send negative signals to Storage new builds deterring future investment and influencing the future security of supply position in the UK.”*

E.ON considered that, *“The proposal would impede investment in storage and undermine existing storage contracts.”*

TGP considered that, *“Transco’s continued attempts to secure and enhance this type of market intervention undermines confidence in peak provision by storage, the economic incentives to construct additional storage and ultimately long-term security of supply.”*

BGT noted that in the absence of any, *“methodology underpinning the discretion afforded to the Transporter under UNC Q5.2.5a) in “reallocating the Safety Monitors between Storage Facility Types”.* The manner in which this reallocation is applied will have a significant impact upon the instigation of an emergency and the ability to alleviate an emergency situation. This in turn will affect the way in which Users will assess their own use of storage facilities.”

CSL stated that, *“Monitor level changes directly influence market pricing by changing the amount of gas available to the market. Increasing Transco’s ability to change levels will prevent the market operating efficiently and will lead to inefficient and/or insufficient investment.”*

Impact on National Grid NTS in its role as Residual Balancer

Four respondents (SGD, CSL, EDF and E.ON) believed that the Proposal, if implemented, would provide the Residual Balancer with a ‘free’ Balancing tool, which may be utilised in preference to a market based tool.

SGD noted that, *“Transco NTS bears no financial cost by taking action to increase Safety Monitor levels. This could mean that it has done so in preference to taking more costly OCM actions earlier that day, the day before or by contracting ahead.”*

CSL considered that, *“This modification will increase Transco’s ability to manage gas shortfalls using storage stock reservation rather than through efficient market based responses such as the locational OCM market or the acquisition of storage withdrawal rights or gas in store.”*

EDF believed that the proposed changes mean that, *“Transco can interfere in the market by centrally controlling storage stocks on behalf of shippers instead*

of relying on the market to resolve gas supply deficits or constraints. This type of action on behalf of the system operator will lead to inefficient and artificial market signals.”

E.ON stated that, *“The proposal is inconsistent with Transco’s role as residual balancer, dampening the incentive on Transco to use efficient market based responses such as the OCM, before intervening in the market.”*

Implications on Market prices

E.ON expressed concern that, *“The proposal will increase uncertainty in a price sensitive gas market, thereby pushing up the price of gas in a manner which may not reflect the true market conditions.”*

Use of Operations Margins Gas

EDF noted that Transco had spent time, *“calculating minimum stock levels which will protect domestic customers through the orderly run down of the system in an emergency. We believe that this is in line with their safety case but we can’t see how increasing monitor levels is necessary in any event as Transco already contracts for system security through their Operations Margins gas arrangements which is the most efficient way to guarantee system security over tight supply days.”*

Unbalanced risk: Transporters vs Shippers

BGT believed that, *“The proposal also ignores the commercial consequences for Shippers of any such change(s) merely protecting the Transporter(s). As such it seems an unbalanced proposal and may not improve overall Security of Supply.”*

SSE expressed concern that, *“the consequences of implementing the proposal as drafted have significant commercial implications for shippers, storage operators and customers, but not Transco NTS.”*

Inclusion of additional volume for LNG in the Storage Safety monitor calculations

One of the reasons provided as a justification for the Modification Proposal was in response to international issues, such as the hurricanes in the States and the subsequent market price movements, which suggested that some LNG, otherwise destined for Europe, might be diverted to the US. E.ON noted that, *“Transco have, therefore, incorporated an additional volume into the long-range storage safety monitor, equivalent to that required assuming loss of supply of 10 mcm/d across the winter period, to reflect this and other supply-side risks. We question why this additional 10mcm/d is not considered sufficient to cope with any uncertainty for this winter.”*

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

Implementation is not required for this purpose.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of

Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirements have been identified.

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

No programme for works has been identified.

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

The Proposer has suggested an implementation date of 1 November 2005.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 20 October 2005, of the 9 Voting Members present, capable of casting 10 votes, 5 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend non-implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL
DOCUMENT**

SECTION Q - EMERGENCIES

The Proposer provided the following revised legal text. It believed that its revisions were consistent with the intent of the Proposal and served to clarify issues raised within the Transmission Workstream

Amend paragraph 5.2.5 to read as follows:

“5.2.5 Transco NTS will keep under review the information previously notified pursuant to paragraphs 5.2.1, 5.2.2 and/or 5.2.3, together with any information available to Transco NTS in respect of its estimates of expected deliveries to or offtakes from the Total System, and may:

- (a) reallocate the Safety Monitor and/or the Firm Gas Monitor between Storage Facility Types in order to enhance the security provided by current storage stocks;
- (b) reduce a Safety Monitor and/or a Firm Gas Monitor to reflect longer-term demand forecasts (for example, during the later Days of the Winter Period); ~~and~~
- (c) adjust a Safety Monitor and/or a Firm Gas Monitor to reflect the occurrence of severe weather; and
- (d) increase or reduce (as the case may be) a Safety Monitor and/or a Firm Gas Monitor to reflect any material change in Transco NTS’s estimates of expected deliveries to or offtakes from the Total System.”

Amend paragraph 5.2.6 to read as follows:

“5.2.6 Where Transco NTS undertakes any of the actions specified in paragraph 5.2.5, Transco NTS will:

- (a) in respect of any of the actions specified in paragraphs 5.2.5(a) to 5.2.5(c), notify Users of any material changes in the information previously notified pursuant to paragraphs 5.2.1, 5.2.2 and/or 5.2.3; and
- (b) in respect of any of the actions specified in paragraph 5.2.5(d), notify Users of the reasons for such action being taken.

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :