

The Joint Office, Relevant Gas
Transporters and other interested
parties

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Dear Colleague

Uniform Network Code modification proposal 054 “Emergency Curtailment Quantity (ECQ) Methodology Statement” and Uniform Network Code alternative proposal 054A “Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology”

Ofgem¹ has considered the issues raised in the modification reports in respect of Uniform Network Code (UNC) modification proposal 054 “Emergency Curtailment Quantity (ECQ) Methodology Statement” and UNC alternative proposal 054A “Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology”. Ofgem has decided not to direct the relevant gas transporters to implement either modification proposal 054 or alternative proposal 054A.

Ofgem considers that neither modification proposal 054 nor alternative proposal 054A would better facilitate the achievement of the relevant objectives of the UNC, as set out under Standard Special Condition A11² of the relevant gas transporters’ licences, as compared with the existing provisions of the UNC.

In this letter, Ofgem sets out the background to the modification proposal and the alternative proposal, a summary of respondents’ views, the Modification Panel’s recommendations and gives reasons for its decision.

Background to the proposals

Approved modification proposal 044 (“Revised Emergency Cash-out & Curtailment Arrangements”)³ introduced a new Emergency Curtailment Quantity (ECQ) title trade and associated ‘trade’ payment. The ECQ title trade seeks to assign the quantities of gas associated with emergency curtailment actions undertaken in a Gas Deficit Emergency (GDE) (including a Potential GDE) as a Trade Nomination between National Grid National Transmission System (NG NTS) and each affected user. Users that are subjected to emergency curtailment by NG NTS receive payment based on the ECQ multiplied by a price determined as the 30 day average System Average Price prevailing at the commencement of the GDE.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms ‘Ofgem’ and the ‘Authority’ are used interchangeably in this letter.

² This Licence Condition can be viewed at:
http://62.173.69.60/document_fetch.php?documentid=6547

³ The decision letter for modification proposal 044 can be found on the Gas Transporters Information Service <https://gtis.gasgovernance.com>

Following the implementation of approved modification proposal 044, the ECQ is currently defined in the UNC TPD Section Q.6 as meaning:

“in respect of a User, the quantity of gas calculated by National Grid NTS as being the sum of the aggregate quantities of gas (in kWh) which each Transporter reasonably estimates (based on the information available to it at the time of making such estimate) that User would have offtaken from the relevant Transporter’s System at System Exit Points in respect of which Emergency Curtailment has occurred but for the fact that Emergency Curtailment had occurred at those System Exit Points.”

However, approved modification proposal 044 did not propose that the ECQ methodology be included in the UNC.⁴ This left the possibility that transporters could use inconsistent calculation methodologies. In its decision letter for modification proposal 044, Ofgem stated that it saw merit in the inclusion of a single ECQ methodology for all relevant transporters in the UNC.

Subsequently, on 25 October 2005, a statement entitled the “Emergency Curtailment Quantity (ECQ) Uniform Calculation Methodology” was published on the Joint Office website on behalf of the gas transporters.⁵ The methodology outlines four possible approaches that can be adopted by the transporters when calculating ECQ consistently with the UNC definition of ECQ. This methodology currently sits outside the UNC governance structure.

The modification proposal and alternative proposal

Modification proposal 054

Modification proposal 054 “Emergency Curtailment Quantity (ECQ) Methodology Statement” was raised by NG NTS on 13 October 2005. This proposal seeks to establish the ECQ Methodology (being a methodology statement setting out the calculations that each transporter will use) as a UNC ancillary document to be revised by the relevant gas transporters subject to approval by a Panel majority of the UNC Committee.

Alternative proposal 054A

Alternative proposal 054A “Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology” was raised by E.ON UK on 9 November 2005. This proposal seeks to define the ECQ methodology as part of the UNC rather than as an ancillary statement such that the methodology would be subject to full UNC governance arrangements.

The proposal also proposes a different approach to the current version of the ECQ methodology for calculation of a user’s ECQ, being a four step calculation. This step based approach is detailed below:

Step 1 Transporters must use Offtake Profile Notices (OPNs) when available, representing the most accurate proxy for ECQs. OPNs can be used if Emergency Curtailment occurs within day.

⁴ NG NTS indicated that it would develop its own ECQ methodology for calculating a shipper’s ECQ and that other transporters would be free to develop their own ECQ methodologies.

⁵ The ECQ Uniform Calculation Methodology statement can be viewed at: <http://www.gasgovernance.com/publications.asp>

Step 2 Where no OPN is available and a Nomination has been submitted, an algorithm based on a user's Nomination will be used to calculate an estimate of the ECQ volume.

Step 3 Where no OPN or Nomination is available, an algorithm based on a user's Historical Consumption will be used to assess the ECQ volume for non-OPN Supply Points.

Step 4 Where no OPN, Nomination or appropriate Historical Consumption data is available, then a scaled Supply Point Offtake Quantity (SOQ) will be used to assess the ECQ volume.⁶

Respondents' views

This section is intended to summarise the principal themes of the respondents' views and is not intended to provide a comprehensive overview of the responses received. Respondents' views can be found in full on the Gas Transporters Information Service⁷.

Given that the majority of respondents who opposed modification proposal 054 offered their support to alternative proposal 054A, in the interests of brevity and ease of reading, views are summarised for both proposals under alternative proposal 054A⁸, grouped according to comments on methodology, governance and "other" matters respectively.

Ten responses were received in relation to modification proposal 054. Of these responses, three supported the modification proposal, one respondent offered comments and five respondents were opposed to the modification proposal.

Ten responses were received in relation to alternative proposal 054A. Of these responses, seven supported the proposal and three respondents were opposed to the proposal.

Respondents in favour of alternative proposal 054A

Methodology

The Proposer of alternative proposal 054A was of the view that a common methodology adopted by all transporters would ensure that a clear and consistent approach was taken to ECQ calculations, providing greater certainty in the event of a potential or actual GDE. This view was shared by the majority of respondents in favour of alternative proposal 054A who considered that a step-wise, sequential approach to the calculation of ECQ volumes would give confidence to users that the most accurate representation of their ECQ had been determined.

One respondent considered that this would reduce the administrative burden on shippers and also reduce the number of post-curtailment appeals.

⁶ A more in-depth explanation of the proposed ECQ calculation methodology can be found in the Final Modification Report for 054 and 054A.

⁷ <https://gtis.gasgovernance.com>.

⁸ That is, the views summarised under the headings in respect of alternative proposal 054A may have been marked as being in respect of modification proposal 054, alternative proposal 054A, or both.

The one respondent who offered support to both modification proposals considered that a lack of clarity and failure to produce an accurate estimate could result in increased costs. That respondent favoured alternative proposal 054A.

The Proposer of alternative proposal 054A considered that a significant defect of the current arrangements was the ability of transporters to use SOQs as a means of estimating a user's ECQ volumes, which could result in ECQ volumes that differed substantially from actual off-takes. This view was shared by the respondent who offered support to both proposals, but who favoured the alternative, who noted that it did not consider using SOQs in the first instance was the most accurate forecast of a customer's demand. This respondent and the Proposer considered that implementation of a standardised set of steps for transporters to follow when calculating a user's ECQs would ensure against inaccurate and misleading representations of the actual volume of gas off-taken.

One respondent in favour of alternative proposal 054A and opposed to modification proposal 054 considered that the latter would not offer any assurances to users that the most appropriate method for calculation of ECQ volumes had been used. This respondent considered that it was difficult to determine how modification proposal 054 would ensure consistency in ECQ calculations given that the current methodology was open to wide interpretation.

Governance

A number of respondents in favour of implementation of alternative proposal 054A considered that subjecting the ECQ methodology to UNC governance arrangements would improve the transparency and accountability of the ECQ process.

One respondent noted that it did not see a reasonable justification for an approach that was only subject to modification by transporters. This respondent considered that governance of the ECQ, which included UNC arrangements and Ofgem, would ensure that inappropriate changes to the methodology would not be made.

One respondent in favour of alternative proposal 054A considered that the ECQ was an important commercial term which should be set out in the UNC and subject to the full jurisdiction of the code governance process. This respondent considered that including the ECQ methodology as an ancillary document would not be sufficient.

Another respondent who offered support to the alternative proposal considered that placing the methodology in the UNC would prevent divergent estimations of ECQ volumes, which would reduce the risk users would face when trying to estimate their own ECQs.

Another respondent noted that alternative proposal 054A would create a level playing field where any proposed changes to the ECQ methodology would be given full industry exposure whereby all views would be captured.

Other

The Proposer of alternative proposal 054A considered that because the proposed arrangements were not significantly different from the arrangements proposed under modification proposal 044, any costs transporters would face as a result of implementation would likely already have been incurred in the development of appropriate systems for the current arrangements. Further, the Proposer of

alternative proposal 054A considered that any costs associated with implementation of 054A would be fully justified by the benefits.

Respondents against alternative proposal 054A

Methodology

The Proposer of modification proposal 054, who opposed implementation of alternative proposal 054A, considered that implementation of the methodology in the alternative proposal would discriminate against users of non-OPN sites. This respondent was concerned that users of sites that provided OPNs would avoid the intent of UNC 044 because OPNs on subsequent days would be expected to be zero. This respondent was of the view that a zero value OPN or nomination post-curtailement would only confirm that curtailment was in effect and was not representative of a reasonable estimate of the ECQ. This respondent considered that alternative proposal 054A was limited because it did not include arrangements for testing whether each step proposed represented a reasonable estimate of the volume that would otherwise have been off-taken.

Another respondent in favour of modification proposal 054 and opposed to alternative proposal 054A considered that there would be no significant benefit in having the ECQ methodology incorporated into the UNC, given that it only sets out a calculation method. This respondent noted that the commercial ECQ terms were already set out in the UNC and open to modification. This respondent also considered it was not clear that the arrangements proposed under alternative proposal 054A would be significantly more accurate than the current arrangements. Further, this respondent expressed concern that any changes to the current methodology would require further work and result in additional costs.

The Proposer of modification proposal 054 was of the view that implementation of modification proposal 054 would ensure that all transporters met their UNC obligations in regard to the calculation of their components of the ECQ in a consistent manner, thereby improving the efficient operation of the ECQ Process by increasing clarity.

Governance

The Proposer of modification proposal 054 considered that modification proposal 054 would promote the efficiency of the UNC by ensuring that methodologies that had a significant commercial impact on users would be subject to the appropriate code governance procedures.

Another respondent in favour of modification proposal 054 and opposed to alternative proposal 054A considered that formally recognising the ECQ methodology as a UNC ancillary document would improve transparency and provide more inclusive and robust governance arrangements. This respondent was of the view that the proposal would promote efficiency of implementation and administration of the UNC and associated arrangements.

Another respondent in favour of modification proposal 054 considered that the proposal presented the most complete range of options for governance of the methodology, and implementation of the proposal would be consistent with the governance arrangements established by modification proposal 0730 ("Extending established Network Code governance arrangements to relevant Transco documents").

Another respondent who did not support alternative proposal 054A considered that implementing a methodology with a strict hierarchy approach could create concerns in the instance that it was necessary to deviate from this hierarchy, such as would be the case if some intervention was required. This respondent considered that because the hierarchy methodology would be subject to UNC governance, transporters may find themselves in breach of the code if deviation was necessary. This respondent was of the view that transporters should have some latitude regarding the ECQ calculation.

Other

One respondent opposed to alternative proposal 054A expressed concern that systems to replace manual processing of the ECQ had already been commissioned and as yet no assessment of whether these would match the requirements of alternative proposal 054A had been undertaken.

Panel recommendation

Modification proposal 054

At the Modification Panel meeting held on 19 January 2006, of the eight Voting Members present, capable of casting eight votes, eight votes were cast in favour of implementing modification proposal 054 "Emergency Curtailment Quantity (ECQ) Methodology Statement". Therefore, the Panel recommended the implementation of this modification proposal.

Alternative proposal 054A

At the Modification Panel meeting held on 19 January 2006, of the eight Voting Members present, capable of casting eight votes, five votes were cast in favour of implementing alternative proposal 054A "Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology". Therefore, the Panel recommended the implementation of this proposal.

Given that modification proposal 054 and alternative proposal 054A are mutually exclusive, the Panel proceeded to vote on whether modification proposal 054 or alternative proposal 054A would better facilitate the achievement of the relevant objectives. Of the eight Voting Members present, capable of casting eight votes, five votes were cast in favour of implementing alternative proposal 054A in preference to modification proposal 054.

Ofgem's view

In deciding whether modification proposal 054 or alternative proposal 054A would better facilitate achievement of the relevant objectives of the UNC as set out in Standard Special Condition A11 of the relevant gas transporters' licences, Ofgem has carefully considered the views of respondents and the Panel.

Ofgem considers, on balance, that it has not been demonstrated that either modification proposal 054 or alternative proposal 054A would better facilitate achievement of the relevant objectives set out in Standard Special Condition A11 compared to the existing provisions of the UNC.

Ofgem considers that the proposals impact on facilitation of relevant objectives (a), (b), (d) and (f)⁹.

Relevant Objective (a) – the efficient and economic operation of the pipe-line system to which this licence relates

Ofgem considers that the methodology component of the proposals could impact on this objective.

In modification proposal 044, NG NTS indicated that it would develop its own ECQ methodology for calculating a shipper's ECQ and that other transporters would be free to develop their own ECQ methodologies. In its decision letter for modification proposals 042 and 044, Ofgem considered such an arrangement could lead to a number of different methodologies co-existing, which could result in shipper uncertainty as to the treatment of particular loads and potentially differential treatment of loads connected to different networks. Ofgem noted that it considered there would be merit in the inclusion of a single methodology for all relevant transporters within the UNC in the medium term.

Modification proposal 054

Ofgem agrees with respondents that the approach proposed under modification proposal 054 could lead to inconsistencies between the approaches employed by transporters for calculating ECQs. This is because the existing ECQ Uniform Calculation Methodology, as published on the Joint Office website on behalf of the gas transporters, outlines four possible approaches that can be adopted by the transporters when calculating ECQ. Under modification proposal 054 transporters would remain free to choose which approach they believe provides the best estimate of a shipper's curtailed volume.

Ofgem shares the concern of several respondents that this could still result in particular loads, if connected to different networks, being treated differently between transporters. Ofgem considers that these inconsistencies could lead to a lack of clarity as to the volume of gas that would have been likely to have been offtaken in the absence of curtailment, which may be detrimental to the economic and efficient operation of the pipeline system.

Ofgem understands that, for the purposes of Section Q (Gas Deficit Emergency) and the National Grid Safety Case, the latest time for the cessation of curtailment is 10am D-1 with any curtailment effectively ceased at 06:00 on D. Given these arrangements, Ofgem believes it is not sufficiently clear why the current ECQ methodology deals with restoration of curtailment only on the day curtailment occurs, and not on subsequent days of an emergency.

Ofgem understands that there is not necessarily a requirement for any special ECQ calculation arrangements during restoration, (as separate arrangements are already outlined within Section Q of the UNC and do not appear to require revisions to be made to ECQ volumes) but considers that it is important for the methodology to be as clear as possible in respect of restoration and consistent with wider emergency curtailment arrangements, so as to avoid any confusion and potential misinterpretation of the ECQ process.

⁹ The relevant objectives are sub-paragraphs of paragraph 1 of Standard Special Condition A11 but are referred to in this document as paragraphs (other than in the text of a relevant objective) for convenience

Alternative proposal 054A

Ofgem is of the view that a uniform, sequential methodology, like that proposed by alternative proposal 054A, would help to ensure that all curtailed volumes are calculated consistently and transparently by all transporters across all networks. This would reduce uncertainty during a potential or actual GDE as to the calculation of any curtailed volumes, thereby facilitating the economic and efficient operation of the pipeline system.

However, Ofgem agrees with the respondent who expressed concerns with regard to the detail of the sequential methodology proposed in alternative proposal 054A, in particular, the use of OPNs and nominations on subsequent days of a potential or actual GDE. Ofgem understands that shippers supplying sites which submit OPNs and/or Gas Flow Nominations and have been curtailed on a previous Gas Day would submit a zero OPN and/or a zero Nomination for those sites on subsequent days of a GDE during which they are curtailed. This would result in a zero ECQ volume being calculated for those users. However, this would not be reflective of the volume of gas that would have been offtaken from the Total System had emergency curtailment not occurred. These users would effectively avoid the ECQ process and consequently their imbalance positions would not be held neutral to the effects of emergency curtailment as intended by modification proposal 044 and the ECQ title trade.

Ofgem is of the view that, by not adjusting a user's imbalance position to the effects of emergency curtailment on subsequent days of a GDE, alternative proposal 054A could adversely affect the commercial incentives placed on users to seek to avoid or alleviate an emergency, by contracting for commercial interruption both prior to and in an emergency, as users may have incentives to wait for NG NTS to curtail significant loads.

Ofgem also considers that the detail of the methodology may reduce the incentives placed on shippers to manage demand effectively (by contracting for demand side response ahead of time), as users who had contracted for demand side response and so have a genuine ECQ of zero would be in the same position as those users who had not contracted for any demand side response, on subsequent days of a GDE. Therefore, Ofgem considers that this may be detrimental to the economic and efficient operation of the pipeline system.

Conclusion

Therefore, in respect of these issues, Ofgem does not consider that it has been demonstrated that either modification proposal 054 or alternative proposal 054A would better facilitate achievement of the efficient and economic operation of the pipe-line system compared with the existing provisions of the UNC.

Relevant Objective (b) – so far as is consistent with (a), the co-ordinated, efficient and economical operation of (i) the combined pipeline system and/or (ii) the pipe line system of one or more other relevant gas transporters

Ofgem considers that the methodology component of the proposals could impact on this objective.

Modification proposal 054

Ofgem considers that the discretion afforded to transporters by the methodology proposed in modification proposal 054 does not ensure a coordinated and consistent approach to calculating the ECQ. As noted previously, Ofgem

considers that the ability to employ differing calculation methods could potentially lead to different treatment of ECQ between different networks.

Alternative proposal 054A

Ofgem considers that implementation of a defined step-by-step methodology like that proposed by alternative proposal 054A could help to ensure that a co-ordinated and consistent approach is taken when calculating the volume of curtailment in an emergency. However, the detail of the hierarchy proposed may present issues on subsequent days of a potential or actual GDE that are detrimental to the co-ordinated, efficient and economic operation of the combined pipeline system.

Conclusion

Overall, and in light of its conclusions against relevant objective (a), Ofgem considers that it has not been demonstrated that either modification proposal 054 or alternative proposal 054A is likely to better facilitate the co-ordinated, efficient and economical operation of the combined pipeline system and/or the pipe line system of one or more other relevant gas transporters relative to the existing provisions of the UNC.

Relevant Objective (d) – so far as is consistent with paragraphs (a) and (c)¹⁰ the securing of effective competition (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

Ofgem considers that the methodology component of the proposals could impact on this objective.

Following the implementation of modification proposal 044, there is now a framework in place to compensate those users that have their gas curtailed by NG NTS during a potential or actual GDE. Ofgem is of the view that it is important that appropriate arrangements are in place within this framework to ensure that curtailment volumes can be calculated as consistently and accurately as possible.

Modification proposal 054

Ofgem considers, as discussed above, that the ECQ methodology proposed in modification proposal 054 does not ensure that each user's curtailment volume will be calculated on the same basis or that users will be treated consistently. Ofgem considers that modification proposal 054 may lead to distortions which may not secure effective competition.

Alternative proposal 054A

Ofgem considers that while the methodology proposed in alternative proposal 054A would ensure uniformity in the process of assessing ECQs on the first day of a potential or actual GDE, it is not clear that it would provide consistency between users on subsequent days of a GDE. This is because users who submit a zero OPN or nomination being able to receive an ECQ equal to zero, while sites which do not submit OPNs or nominations and have also been curtailed by NG NTS

¹⁰ Objective (c) reads as follows: "so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence".

would be likely to receive a non-zero ECQ. In addition, those sites who submit a zero OPN or nomination following curtailment by NG will be in the same position as those sites that have undertaken commercial demand side response prior to or during emergency circumstances. Ofgem considers that this may unduly discriminate against those parties that had undertaken commercial demand side response and would not secure effective competition.

Conclusion

Ofgem does not consider that it has been demonstrated that either modification proposal 054 or alternative proposal 054A would be likely to secure effective competition between shippers and suppliers. Therefore, Ofgem does not consider that it has been demonstrated that either modification proposal 054 or alternative proposal 054A would better facilitate the achievement of relevant objective (d).

Relevant Objective (f) – so far as is consistent with sub-paragraphs (a) to (e)¹¹, the promotion of efficiency in the implementation and administration of the network code and or the uniform network code

Ofgem considers that the governance implications of the proposals could impact on this objective.

Modification proposal 054

Ofgem understands that the governance arrangements proposed under modification proposal 054 provide for the inclusion of the current ECQ methodology as a UNC ancillary document, subject to oversight by the UNC Committee. Whilst Ofgem considers that this represents an improvement relative to the current position, Ofgem agrees with those respondents who expressed concerns that the methodology could only be revised by transporters (subject to the approval of the Panel of the UNC Committee) as this restricts the ability of all other market participants to contribute directly to further developments of the ECQ methodology. On balance, however, Ofgem considers that the proposed revision to the governance arrangements under modification proposal 054 would better facilitate the achievement of relevant objective (f) relative to the existing baseline. Furthermore, Ofgem remains of the view that it would be preferable to include the ECQ methodology arrangements within the UNC as proposed in alternative proposal 054A.

Alternative proposal 054A

Under alternative proposal 054A the ECQ methodology would be included within the UNC and be subject to the full jurisdiction of the code governance procedure. This approach would make the ECQ methodology subject to UNC modification procedures. Ofgem considers that inclusion of the ECQ methodology in the UNC would promote efficiency in the implementation and administration of the UNC. Therefore, Ofgem considers that alternative proposal 054A would better facilitate the achievement of relevant objective (f).

¹¹ objective (e) reads as follows: “so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers”.

Conclusion

Ofgem considers that both modification proposal 054 and alternative proposal 054A would better facilitate the achievement of relevant objective (f). However, Ofgem considers that alternative proposal 054A better facilitates relevant objective (f) compared with modification proposal 054.

Ofgem's decision

For the reasons above, taking into account the views in relation to relevant objective (f), on balance, Ofgem considers that it has not been demonstrated that either modification proposal 054 or alternative proposal 054A would better facilitate the achievement of the relevant objectives set out in Standard Special Condition A11 compared to the existing provisions of the UNC.

Therefore, Ofgem has decided not to direct either the implementation of modification proposal 054 or the implementation of alternative proposal 054A.

Wider issues

Following Ofgem's indication at the March 2006 UNC Panel meeting that it was minded to reject both modification proposal 054 and alternative proposal 054A, NG NTS has indicated that it plans to raise a further modification proposal which aims to improve the current ECQ Methodology and place it within the UNC. Ofgem notes that it is open for NG NTS or other UNC parties to raise modification proposals in relation to this area. Ofgem would welcome any modification proposals which seek to address the deficiencies outlined in this decision letter as soon as possible.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact Simon Bradbury on 020 7901 7249 or Claire Rozyn on 020 7901 7216.

Yours sincerely



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