

**CODE MODIFICATION PROPOSAL No 0149**

**Gas Emergency Cashout Arrangements: Keeping the On the Day Commodity Market open during a Gas Deficit Emergency**

**Version 3.0**

<b><u>Date:</u></b>	17/05/07
<b><u>Proposed Implementation Date:</u></b>	1 <sup>st</sup> October 2007
<b><u>Urgency:</u></b>	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, which 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 Network Gas Supply Emergency 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 the 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 (and beyond) NGS(GD)E;
- 2) Describing a market reflective and dynamic emergency cashout pricing methodology throughout the emergency.

UNC TPD Section Q 3.2.2 (c) states that upon declaration of Stage 2 of an NGS(GD)E, the application of UNC TPD 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 Section Q paragraphs 4.1 and 4.2 shall apply. A key provision of Section Q 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 an NGS(GD)E. Under the current arrangements the “relevant prices” are set to those prices derived within UNC TPD 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 and 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).
- 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 kWh 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 kWh 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.

This proposal was discussed at the April 2007 Transmission Workstream

meeting, where queries were raised over whether the marginal pricing mechanism, based on User OCM trades, as proposed was the most suitable. National Grid NTS and the Ofgem chaired “Options for the design of gas emergency arrangements” workgroups have considered a number of alternative options for setting these prices. We continue to consider that the proposed clearing price methodology is the most appropriate for the situation described in this Proposal (i.e. during an NGS(GD)E). An SMP(buy) cashout price based on anything other than the true marginal price would dilute the incentive on the provider of this marginal gas to deliver the gas to the System.

The proposal was subsequently retabled at the May Transmission Workstream and a concern was raised over the potential for “gaming” by Shippers to set high SMP(buy) cashout prices to their advantage. National Grid NTS does not consider that this is likely, given the emergency conditions prevalent when the changes described in the proposal are in effect and regulatory oversight applied to the market, including the Competition Act and FSA Regulations (that APX, the OCM market operator, has applied for and hopes to achieve in the near future).

At the May Transmission Workstream meeting, it was agreed that this Modification Proposal should be sent to the May Modification Panel with a recommendation that it be issued for consultation.

In support of this Modification Proposal we have undertaken a review of the provisions set down in UNC TPD 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. National Grid NTS would stress that these changes are proposed solely to support the intent of this Modification Proposal and to resolve certain potential inconsistencies in Section Q of 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 and higher all the provisions of UNC TPD Section C – Nominations shall apply;
- Q4.1.1(c) shall be removed as the provisions relating to the use of the OCM during an NGS(GD)E Stage 2 and 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 UNC TPD 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 intact 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;

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

Not 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.**

Subsequent to its discussion at the industry forum “Options for the Design of Gas Emergency Arrangements” led by Ofgem, National Grid NTS tabled this Modification Proposal at the April 2007 Transmission Workstream for discussion and development, in accordance with Section 7.4 of the Modification Procedures\* in the UNC. National Grid NTS felt that sending this Proposal to the Transmission Workstream would be beneficial and would enable timely consideration of the merits of the Proposal.

It was agreed at the May 2007 Transmission Workstream meeting that this Modification Proposal should proceed to the Consultation Phase, subject to the Modification Panel vote.

**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 the extension of the OCM “route to market” will benefit this objective in two ways:

- 1) Users will have a greater opportunity to trade out their imbalances; and
- 2) The setting of both marginal clearing prices based on Users’ trades will result in more market reflective and dynamic incentives being set during the emergency.

Both of the above will lead to improved cost targeting. Users will therefore be further 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 implementation of 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” by ensuring that market based dynamic cashout prices are set throughout an 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 an NGS(GD)E (Stage 2 and 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 and 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)**

No such implications have been identified.

**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 an NGS(GD)E (Stage 2 and 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)**

As stated above, it is possible that implementation of the Proposal could reduce the extent and duration of an NGS(GD)E at Stage 2 and beyond and, if this were the case, this could reduce the costs faced by Consumers as a result.

**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**

National Grid NTS 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) It 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**

#### **TPD Section D**

*Amend paragraph 1.6 to read as follows:*

1.6 Emergencies

In a Network Gas Supply Emergency, the provisions of this Section D shall apply to the extent provided by Section Q.

#### **TPD Section Q**

*Amend paragraph 3.2.2 to read as follows:*

3.2.2 During Stage 2 (and higher) of a Gas Deficit Emergency:

- (a) .....
- (b) .....; and/or
- (c) With effect from the time the Gas Deficit Emergency was declared, and in respect of any later Gas Flow Day falling within the duration of a Gas Deficit Emergency, National Grid NTS will not take any Market Balancing Actions; and (in lieu thereof) the Emergency Procedures will apply and National Grid NTS's decisions as to the delivery and offtake of gas to and from the Total System will be implemented pursuant to the provisions of this Section Q; in which case, the provisions of paragraph 4.1 shall apply and the clearing of gas balances shall occur in accordance with the provisions of paragraph 4.2. Furthermore, the following provisions of Section D will be suspended for the duration of a Gas Deficit Emergency:
  - (i) Section D1.1.2(b) (to the extent that National Grid NTS will not take any Market Balancing Actions during a Gas Deficit Emergency);
  - (ii) Section D1.5;
  - (iii) Section D2.2.8 and 2.2.9;
  - (iv) Section D3; and
  - (v) Section D4.

*Amend paragraph 3.3.2 to read as follows:*

3.3.2 During Stage 2 (and higher) of a Critical Transportation Constraint Emergency:

- (a) .....; and/or
- (b) if National Grid NTS determines at any time that the application of Section D may have a detrimental effect on National Grid NTS's immediate ability to take Emergency Steps in accordance with paragraph 1.5.1 above, then with effect from such time as may be determined by National Grid NTS and notified to Users pursuant to paragraph 3.1.1(b) and in respect of any later Gas Flow Day falling within the duration of a Critical Transportation Constraint Emergency, National Grid NTS will not take any Market Balancing Actions; and (in lieu thereof) the Emergency Procedures will apply and National Grid NTS's decisions as to the delivery and offtake of gas to and from the Total System will be implemented pursuant to paragraph 3.3.3. In the event that National Grid NTS does so determine, the provisions of paragraphs 3.2.2(a), 4.1.1 and 4.2 shall, from the time determined by National Grid NTS pursuant to this paragraph, apply mutatis mutandis to the Critical Transportation Constraint Emergency as if all references to a Gas Deficit



Emergency were to the Critical Transportation Constraint Emergency. Furthermore, the following provisions of Section D will be suspended from such time as may be determined by National Grid NTS and notified to Users pursuant to paragraph 3.1.1(b) for the duration of a Critical Transportation Constraint Emergency:

- (i) Section D1.1.2(b) (to the extent that National Grid NTS will not take any Market Balancing Actions during a Gas Deficit Emergency);
- (ii) Section D1.5;
- (iii) Section D2.2.8 and 2.2.9;
- (iv) Section D3; and
- (v) Section D4.

*Amend paragraph 4.1.1 to read as follows:*

4.1.1 In respect of each Day or part of a Day during a Gas Deficit Emergency at Stage 2 and higher:

- (a) the provisions of Section B as to Overrun Charges, LDZ CSEP Overrun Charges and Supply Point Ratchets will not apply and the provisions of Section B2 as to Daily NTS Entry Capacity, Interruptible NTS Entry Capacity, surrender of NTS Entry Capacity and curtailment of NTS Entry Capacity shall not apply (and in relation to the first such Day or part of a Day, amounts payable pursuant to the application of those paragraphs on the Preceding Day shall cease to be payable);
- (b) the provisions of paragraph 3.2.2 shall apply in relation to the application of Section D;
- (c) Section F2 will apply on the basis in paragraph 4.2; Section F3 will not apply (so that no Scheduling Charges will be payable); Section F4 will apply, modified in accordance with paragraph 4.2 (and in consequence of the provisions of this paragraph 4.1.1); and Sections F5 and F6 will apply;
- (d) Section I3.10 (as to rates of delivery of gas) will not apply, and where the Transporter requests or permits the delivery of gas to the Total System which does not comply with the applicable Gas Entry Conditions, Section I3.4 will not apply; and
- (e) the provisions of Sections G and M as to payments by the Transporter to Users in respect of the performance or failure to perform the Transporter's obligations under those Sections will not apply to the extent any failure in such performance results from the

Gas Supply Emergency or the taking of Emergency Steps.

- (f) the Transporter may by notice to Users suspend the implementation (as respects all Users) of any of the provisions of Section G (other than paragraph 6.6.5 thereof).

*Amend paragraph 4.2.4 to read as follows:*

4.2.4 For the purposes of this paragraph 4.2:

- (a) the “relevant price” in respect of paragraph 4.2.2(a) is the price in pence per k/Wh equal to the volume weighted average of all the Market Offer Prices for Market Transactions entered into for the Gas Flow Day; and
- (b) the “relevant price” in respect of paragraph 4.2.2(b) is the price in pence per k/Wh equal to the highest Market Offer Price for Market Transactions entered into for the Gas Flow Day.

Where no Market Transaction is entered into for the Gas Flow Day in question, the “relevant price” in respect of paragraph 4.2.2(a) or 4.2.2(b) shall be equal to that for the previous Gas Flow Day.

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** Sections D & Q.

**Proposer's Representative**

*Alex Thomason (National Grid NTS)*

**Proposer**

*National Grid NTS*