

Modification Report
Gas Emergency Cashout Arrangements: Keeping the On the Day Commodity Market open
during a Gas Deficit Emergency
Modification Reference Number 0149A

Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Both Proposals

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.

Proposal 0149

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:

Alternative Proposal 0149A

This Proposal is being brought forward with the intent of opening the OCM to Shippers during a Stage 2 (and beyond) NGS(GD)E;

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 this alternative proposal the “relevant prices” shall continue to be derived as per 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.

It is widely held view that the invoking of Emergency Procedures is an implicit acceptance that normal market conditions and the rules that apply under such conditions can no longer apply. This is reflected by the fact that it is deemed necessary for National Grid NTS to act beyond its residual role in an emergency (e.g. by interrupting customers for energy balancing as well as constraint management reasons).

Shippers will not necessarily be able to respond to so called ‘dynamic’ cash-out

process in the same way as they would under normal market conditions. Financial incentives to balance only work if shippers have the ability to respond. A shipper may be faced with a substantial 'short' position only as a result of a major terminal failure which in turn resulted in the declaration of a NGS(GD)E. Why would such a party seek to obtain price sensitive 'merchant' gas from outside the UK jurisdiction, as this is likely to set a higher cash-out price and exacerbate his already significant financial exposure?

Nevertheless we consider that it is important to keep the OCM open¹ as another route to market for shippers. In the event that a premium price has to be paid to attract price sensitive gas sourced from outside UK jurisdiction and that this is greater than the 'frozen' SMPsell price (i.e. the prevailing SAP at the time the NGS(GD)E was declared) any excess would be claimable under the Section Q post emergency claims procedures.

In support of their original Modification Proposal 0149 National Grid NTS 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. These changes are intended to resolve certain potential inconsistencies in Section Q of the UNC. The changes proposed also form part of this alternative Proposal and are set out below:

Both Proposals

- 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.

Suggested Text

Proposal 0149

¹ It is our understanding this is simply an anomaly in the UNC that was accidentally introduced into the regime when the old flexibility mechanism (which facilitated transactions only between NGG NTS and shippers) was replaced with the OCM which also allowed shipper to shipper trades.

TPD Section D

Amend paragraph 1.6 to read as follows:

1.6 Emergencies

In accordance with Section Q in a Network Gas Supply Emergency, the provisions of this Section D, other than paragraph 1.6, shall not 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) ~~the application of Section D (other than paragraph 2.4 thereof) will be suspended and w~~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 ~~the application of Section D (other than~~

~~paragraph 2.4 thereof) will be suspended and~~ 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) Section C (other than paragraph 5 thereof) will not apply, except to the extent to which National Grid NTS may wish to use the Nomination process as a means for Users to communicate with National Grid NTS;~~
 - (be) in accordance with the provisions of paragraph 3.2.2 shall apply in relation to the application of Section D (other than paragraph 2.4**

~~thereof) will not apply (and for the avoidance of doubt the provisions as to Physical Renomination Incentive Charges will not apply);~~

- ~~(d) Section E will apply, subject to paragraph (f); but the Exit Close out Date may be deferred;~~
- ~~(ce)~~ 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;
- ~~(f) the application of Section H will be modified with a view to ensuring (on such approximate basis as is reasonably practicable in the circumstances) that gas is not treated as offtaken at NDM Supply Point Components at which the offtake of gas has been discontinued pursuant to Emergency Steps as described in paragraph 3.5.1;~~
- ~~(dg)~~ 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**
- ~~(eh)~~ 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; ~~and~~
- ~~(fi)~~ 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 ~~System Average Price determined under Section F1.2.1 or F1.2.2~~ **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 ~~System Marginal Buy Price as determined under Section F1.2.1(a)~~ **price in pence per k/Wh equal to the highest Market Offer Price for Market Transactions entered into for the Gas Flow Day.**

~~in each case by reference to the Day on which the Gas Deficit Emergency (at Stage 2 and higher) started~~ **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.

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

Standard Special Condition A11.1 (a): *the efficient and economic operation of the pipe-line system to which this licence relates;*

Both Proposals

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.

Proposal 0149

Some respondents believed that use of a dynamic market price would lead to more efficient operation if the supply situation is returning to normal but there is insufficient gas in store.

Proposal 0149A

Some respondents believed that merchant gas supplies would be less likely to enter the GB system if this Proposal were implemented instead of Proposal 0149.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers...*

Both Proposals

Some respondents believed that implementation would provide opportunities for gaming which would lead to shippers being commercially disadvantaged. Respondents pointed out that such instances of gaming would be difficult to identify or prove.

Respondents also referred to the DTI gas and electricity interactions task group and expressed concern that these Proposals were being considered prior to these interactions being considered. It is possible that a direction to generate might lead to Shippers purchasing gas at very high prices.

Proposal 0149

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 may lead to improved cost targeting. Users might 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.

However, some respondents, believed that shippers would not be incentivised to trade as this would lead to a higher cash out price. It was also considered that cash out prices might be set by very small unrepresentative trades and that shippers may overreact resulting in price spiralling. This view was not shared by all respondents with some pointing out that Users that used the OCM to trade-out a short imbalance position would reduce the risk of cash out exposure from OCM trades taking place later that Day, which set the cash out price. Some respondents believe that high cash out prices resulting from implementation might lead to business failure for certain shippers which would in turn lead to additional costs for the remaining shippers.

Proposal 0149A

Keeping the OCM open provides another route to market for shippers which (within the major constraints of the emergency situation) may help facilitate some improvement in wholesale market liquidity which may help better facilitate competition between shippers.

The continuation of the 'frozen' emergency cashout prices will ensure that market participants will have greater certainty with respect to imbalance cashout exposures, enabling them to focus on their duty to co-operate with the NEC in accordance with the relevant Gas Safety Management Regulations, rather than seeking to mitigate an arbitrary financial exposure that some believe is likely to arise from the establishment of a so called 'dynamic' emergency cashout prices.

Parties that find themselves 'short' in an emergency will need to use all avenues available to reduce that 'short' position. By avoiding the imposition of 'dynamic' cashout prices this Proposal may avoid exacerbating the financial woes of such parties. This will enable more parties to stay in business² than might otherwise be the case, thus facilitating greater competition in shipping and supply than might otherwise be the case once the full market arrangements have been restored.

However, some respondents believed that this degree of price certainty should be balanced against the risk of excessively high cash out prices.

Standard Special Condition A11.1 (e): *(e) so far as is consistent with subparagraphs (a) to (d), 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*

Proposal 0149

The implementation of this Proposal might facilitate the achievement of this

² During the 2005/06 Winter a number of smaller shippers went out of business because of very high wholesale gas prices. Any shippers finding themselves 'short' in an emergency against a backdrop of rapidly escalating 'dynamic' cash out prices could get into financial difficulties. Failed businesses pass on their imbalance debts and customers to the remaining shippers which would have knock-on financial consequences for those shippers. Complete market failure could follow.

objective by ensuring that market based dynamic cash out prices are set throughout an NGS(GD)E.

However, some respondents believed that individual Users would not be able to realistically respond to any price incentive. They pointed out that the declaration of an emergency would indicate that the market had failed and in these circumstances retaining incentives, by continuing with dynamic cash out price setting, would not achieve the desired outcome.

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

Both Proposals

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.

However, some respondents believed that implementation would create additional complexity and uncertainty which would have negative implications on security of supply, particularly compromising a shipper's ability to respond to NEC instructions.

No adverse implications in respect of industry fragmentation have been identified.

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

a) implications for operation of the System:

Both Proposals

Implementation would increase 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 in minimising the extent and/or duration of an emergency.

Proposal 0149

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, may provide more appropriate and consistent incentives on Users to deliver gas to the GB system. Implementation may therefore have a positive impact on the efficient operation of the System.

b) Development and capital cost and operating cost implications:

Both Proposals

No development or capital costs have been identified. However, by providing an additional 'route to market' for merchant gas supplies, implementation 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) **extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

Both Proposals

No proposal is made for the specific recovery of implementation costs.

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

Both Proposals

The contractual risk for DNO Users would be reduced, as DNO Users would be better placed to meet customer capacity requirements in the timescales required and in the most economic and efficient way possible, without any increased risk for National Grid NTS.

- 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**

Both Proposals

No such consequence has been identified.

- 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**

Both Proposals

No such implications have been identified.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Both Proposals

No such implications have been identified

Development and capital cost and operating cost implications

Both Proposals

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 that would in turn reduce the scale of costs passed on to Users.

Consequence for the level of contractual risk of Users

Proposal 0149

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.

Some respondents believed that this risk was very high and implementation might lead in some cases to business failure in the event of any emergency.

Proposal 0149A

Unlike Proposal 0149, the financial risk on Users, under this alternative Proposal, would not increase as the imbalance cashout prices remain 'frozen'. In fact, the additional route to market would help Users better manage their imbalance exposure.

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

Both Proposals

Implementation of this 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 each Transporter and each User and Non Code Party of implementing the Modification Proposal

Both Proposals

No such consequences have been identified.

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

Advantages

Both Proposals

- 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

Proposal 0149

- 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

Proposal 0149

- Users anticipating a deficit daily imbalance in a GDE would face a higher financial exposure if the cashout price increased from that applying at the onset of the GDE. As this cashout price reflects market prices, Users would face similar exposures if they resolved their imbalance position by trading-in gas on the Day.

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

Name		0149	0149A	Preference
Association of Electricity Producers	(AEP)	Not in Support	Not in Support	0149A
APX Group	(APX)	Comments	Comments	0149A
British Gas Trading Limited	(BGT)	Qualified Support	Not in Support	0149
Corona Energy	(Corona)	Not in Support	Support	0149A
EDF Energy	(EDFE)	Not in Support	Not in Support	None
E.ON UK plc	(E.ON)	Not in Support	Support	0149A
National Grid Distribution	(NGD)	Support	Not in Support	0149
National Grid NTS	(NGNTS)	Support	Qualified Support	0149
RWE Npower and RWE Trading GmbH	(RWE)	Not in Support	Not in Support	None
Scotia Gas Networks plc	(SGN)	Comments	Comments	None
Statoil (UK) Limited	(STUK)	Not in Support	Qualified Support	0149A
Wales and West Utilities	(WWU)	Comments	Comments	None

Therefore, for Proposal 0149, two respondents supported implementation, one offered qualified support, three provided comments and six were not in support.

For Proposal 0149A, two respondents supported implementation, two offered qualified support, three provided comments and five were not in support.

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

No such requirement has been identified.

- 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**

Both Proposals

No such requirement has been identified.

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

Both Proposals

No programme for works has been identified that would affect the timely implementation of either Proposal.

- 15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

Either Proposal

It is recommended that the applicable Proposal be implemented immediately following the decision by the Authority.

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

Both Proposals

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 19 July 2007, of the 10 Voting Members present, capable of casting 10 votes, 3 votes were cast in favour of implementing Modification Proposal 0149. Therefore, the Panel did not recommend implementation of Modification Proposal 0149. At the same meeting, 6 votes were cast in favour of implementing Alternative Proposal 0149A. Therefore the Panel recommended implementation of Alternative Proposal 0149A.

The Panel then proceeded to vote on which of the two Proposals would be expected to better facilitate achievement of the Relevant Objectives. Of the 10 Voting Members present, capable of casting 10 votes, 3 votes were cast in favour of implementing Proposal 0149 in preference to Alternative Proposal 0149A, and 5 votes was cast in favour of implementing the Alternative Proposal 0149A in

preference to Proposal 0149. Therefore, the Panel determined that, of the two Proposals, Proposal 0149A would better facilitate the achievement of the Relevant Objectives.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks agreement from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Proposal 0149A:

**UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL
DOCUMENT**

**SECTION D – OPERATIONAL BALANCING AND TRADING
ARRANGEMENTS**

Amend paragraph 1.6 to read as follows:

1.6 Emergencies

~~In accordance with Section Q in a Network Gas Supply Emergency the provisions of this Section D, other than this paragraph 1.6, shall not apply to the extent provided by Section Q.~~

**UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL
DOCUMENT**

SECTION Q – EMERGENCIES

Amend paragraph 3.2.2 to read as follows:

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

- (a) each User shall comply with all instructions by National Grid NTS to deliver gas to the Total System at System Entry Points in such quantities and at such rates as National Grid NTS may specify, up to the maximum quantities or rates which are available (by the exercise of all contractual rights as to the supply of gas or otherwise) to the User, irrespective of the commercial terms of such supplies, and irrespective of the quantities of gas being offtaken from the Total System by the User;
- (b) National Grid NTS may (where appropriate, in lieu of applying paragraph (a) in relation to gas-in-storage) issue direct instructions to the Operator of any Storage Facility in relation to which appropriate arrangements exist in the relevant Storage Connection Agreement to deliver gas to the Total System at the relevant Storage Connection Point (in which case relevant Users shall be treated as having delivered to the Total System, at the relevant Storage Connection Point, such quantities of gas as have been notified to National Grid NTS by the relevant Storage Operator); and/or
- (c) ~~the application of Section D (other than paragraph 2.4 thereof) will be suspended and w~~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) National Grid NTS may issue direct instructions to the Operator of any Storage Facility in relation to which appropriate arrangements exist in the relevant Storage Connection Agreement to deliver gas to the Total System at the relevant Storage Connection Point (in which case relevant Users shall be treated as having delivered to the Total System, at the relevant Storage Connection Point, such quantities of gas as have been notified to National Grid NTS by the relevant Storage Operator); 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 the application of Section D (other than paragraph 2.4 thereof) will be suspended~~ 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 from such time 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 in such paragraphs 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) Section C (other than paragraph 5 thereof) will not apply, except to the extent to which National Grid NTS may wish to use the Nomination process as a means for Users to communicate with National Grid NTS;~~
- ~~(be) in accordance with the provisions of paragraph 3.2.2, shall apply in relation to the application of Section D (other than paragraph 2.4 thereof) will not apply (and for the avoidance of doubt the provisions as to Physical Renomination Incentive Charges will not apply);~~
- ~~(d) Section E will apply, subject to paragraph (f); but the Exit Close out Date may be deferred;~~
- ~~(e) 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;~~
- ~~(f) the application of Section H will be modified with a view to ensuring (on such approximate basis as is reasonably practicable in the circumstances) that gas is not treated as offtaken at NDM Supply Point Components at which the offtake of gas has been discontinued~~

~~pursuant to Emergency Steps as described in paragraph 3.5.1;~~

- ~~(dg)~~ 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
- ~~(eh)~~ 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; and
- ~~(i)~~ ~~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). 4.1.2 In a Gas Supply Emergency any other provision of the Code which would in any particular case conflict with the implementation of this Section Q shall to that extent not apply.~~

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters