

Stage 01: Modification

0435:

Arrangements to better secure firm gas supplies for GB customers

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This Modification seeks to change the UNC in order to better secure gas supplies to firm gas customers and therefore reduce the likelihood of entering a Gas Deficit Emergency (GDE). It sets out that National Grid NTS shall on a periodic basis follow an agreed methodology in order to assess the requirement for demand side reduction (DSR) and undertake a process in order to secure that requisite amount of economic DSR. The cost of exercising these contracts will be reflected in the daily cash-out price.



The Proposer recommends that this modification should be sent to Workgroup for assessment



High Impact:



Medium Impact:
National Grid Gas NTS, certain consumers



Low Impact:
Certain other consumers

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About this document:

This document suggests a Modification to the UNC, to be presented by the proposer to the Modification Panel on 18 October 2012.

It is recognised that the subject matter could be viewed as relating to a matter which is the subject of an ongoing Significant Code Review. Therefore, we first seek the views of the Modification Panel on this point. Second, should the Modification Panel determine that this Proposal is in its view related to an ongoing SCR, we request that the Authority exercises its power as set out at 6.1.5 of the Modification Rules and allows this Modification to remain a stand alone proposal to be assessed and developed by the industry in accordance with established governance procedures.

If the Panel determines that it does not relate to an ongoing SCR the proposer requests that this Proposal be referred to a workgroup for assessment.

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1 Summary

Is this a Self-Governance Modification

This proposal is not recommended for self-governance procedures. This is on the basis that it could have a material impact on certain gas customers, and could also have financial implications for gas shippers and suppliers through the cost of taking mitigating actions.

Why Change?

Concern has been expressed that the current market arrangements, and subsequent command and control arrangements, may in future not deliver adequate supply security standards as a result of the depletion of indigenous supplies and increasing import dependence.

Solution

At a high level it is proposed that through an agreed methodology National Grid NTS (NG) identifies the voluntary demand side reduction (DSR) volumes necessary to protect supplies to higher priority customers, and conducts a process to secure those volumes.

It is proposed that NG has the right to trigger interruption of these customers under this process where a Gas Balancing Alert (GBA) or equivalent has been declared. Such voluntary DSR would take place ahead of any GDE being declared.

It is proposed that any "option" fees required by customers to be voluntary DSR are socialised. We propose that this is done through an uplift to the non-emergency daily cash-out default SMPb calculation.

It is proposed that the cost of exercising the right to interrupt a customer through this process sets the "short" marginal price for the day until a higher priced balancing action is taken (if any).

Impacts & Costs

Where voluntary DSR services are contracted by NG, the costs of these services will be recharged to shippers. These costs are likely to flow through to customers. NG may also incur monitoring, administration and system costs in conducting this process and maintaining records of interruptible customers. Where shippers take additional action to better secure gas supplies, these actions may result in costs which will flow through to customers.

Implementation

No specific implementation timetable is being put forward at this stage, with the expectation that this will be considered by a Workgroup. However, it is recommended that implementation is not prior to when the Department for Energy and Climate Change has made public its decision on which, if any, additional measures it intends to put in place to better secure GB's gas supplies, pursuant to the "further interventions" report it is considering from Ofgem. In addition, it is considered desirable that NG shall conduct the relevant process to secure DSR to take effect from no later than 1 October 2014.

The Case for Change



The arrangements that would apply in a GDE are contained in Section Q of the Uniform Network Code Transportation Principle Document, which can be viewed at <http://www.gasgovernance.co.uk/TPD>

The arrangements for establishing daily cash-out prices are contained in Section F of the Uniform Network Code transportation Principle Document, which can be viewed at: <http://www.gasgovernance.co.uk/TPD>

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This proposal is believed to be necessary in order to provide a market based and proportionate remedy to concerns which have been expressed about the future security of GB gas supplies to firm customers.

Recommendations

It is recommended that this proposal ultimately be referred to a workgroup for assessment.

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2 Why Change?

Players in the GB market have an excellent track record of delivering a very high standard of gas supply security against a background of changing supply and demand patterns. GB customers have never gone without gas as a result of gas shortages (i.e. a GDE). We believe that this supply security standard has been – and continues to be - incentivised by the prevailing arrangements contained within the UNC, but in addition is underpinned by a series of arrangements which would take effect were a GDE ever to be called.

Central to these arrangements is the ability of National Grid NTS (NG), acting under the direction of the Network Emergency Co-ordinator, to assume “command and control” over GB production and certain other gas facilities. At the point where this power is invoked, NG’s role in balancing the system by setting market price incentives ceases, and the cash-out price for “short” shippers is frozen at the prevailing level. NG also receives powers to decide how gas is allocated between customers, which at least initially would broadly translate into the progressive disconnection of customers starting with the biggest loads.

These arrangements overall were assessed to be satisfactory whilst GB was largely self sufficient in gas. However, concern has been expressed that the arrangements may in future become inadequate as a result of the depletion of indigenous supplies and increasing import dependence.

Specifically, the NEC would assume control over much lower indigenous production capability, and therefore its ability to reduce the severity and/or duration of a GDE may become diminished. The NEC is not able to instruct international gas supplies to deliver into GB.

There are a number of ways of maintaining an adequate level of supply security, with an essential one being to ensure that GB continues to be seen as an attractive destination for gas from other markets around the world, in all circumstances. This will be driven primarily by the price that such gas achieves on the market, which is a function of how much shippers are willing to pay. The most that any shipper is incentivised to pay for gas is the “short” shipper cash-out price.

It is therefore possible that were a GDE declared under current arrangements, the “short” cash-out price may be frozen at a level too low to attract the necessary gas from international markets.

A further way of protecting gas supplies to the most vulnerable in society – who may tend to value gas more (generally identified as domestic customers and priority loads such as hospitals) - is by first disconnecting the less vulnerable, or those who may tend to value gas less. The vast majority of customers are unable to express in the short term their willingness to pay for gas. But some customers, particularly the largest industrial and commercial loads, are able and willing to do so and it is these same customers who in a GDE would be likely to be disconnected first.

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3 Solution

The primary concern is to implement arrangements which will avoid getting into a GDE situation in the first place. In order to achieve this aim, at a high level and through an industry developed and agreed methodology, it is proposed that:

1. On a periodic [annual] basis NG will assess the requirement for voluntary DSR amongst daily metered loads in order to adequately secure gas supplies to other gas customers.
2. Having identified the volume requirement, NG will conduct a suitable process in order to secure the voluntary DSR requirement at the lowest market price.
3. Any "option" fees" (e.g. a "standing charge" payable to the customer for being willing to be interrupted) from this process will be paid for through an uplift to the non-emergency daily cash-out default SMPb calculation.
4. Any "exercise" fees from actually calling off the customer will be paid for by shippers who are "short" on the day the arrangement is exercised, through a process to be defined.
5. NG will only be able call on these voluntary DSR services once a gas balancing alert (or equivalent) has been declared.
6. The right to interrupt a customer will carry equal weight as the right to take a gas buying action in order to balance the system, with actions being taken in accordance with an increasing price stack.
7. The cost of exercising a right for voluntary DSR will set the marginal "short" cash-out price for that day, until a higher priced balancing action (if any) is taken.
8. Where time permits, NG should aim to only call a GDE (and hence instigate involuntary DSR) once all voluntary DSR curtailment has been exhausted.

It should be noted that this process does not preclude shippers/suppliers and customers from bilaterally agreeing voluntary DSR contracts.

It is further proposed that in future were a GDE to be called which resulted in involuntary customer disconnections, the marginal "short" cash-out price would be frozen at the prevailing level at the time of the first such involuntary DSR called by NG.

The proposer believes that, although centrally co-ordinated and procured, this solution is particularly market based in that it allows customers who are able (e.g. daily metered), to express their own value of lost load rather than have one imputed for them.

Further, it is considered that this process will incur lower transactional costs than may be the case, for example, were shippers/suppliers and customers to seek to agree bilateral interruption contracts (although it should be noted that this proposal does not seek to prevent such bilateral contracting from occurring). This proposal may also lead to a particularly economic and efficient outcome since only the required amount of voluntary DSR should be contracted; if left to shippers/suppliers there is a risk of over or under contracting against a given gas security standard.

It also helps to overcome any residual reluctance some customers may have to agreeing to interruptible contracts with their shipper/supplier, given that the ability to call voluntary DSR will only be available at times of system stress as established by the System Operator.

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4 Relevant Objectives

Impact of the modification on the **Relevant Objectives:**

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	Positive
c) Efficient discharge of the licensee's obligations.	Positive
d) 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.	Positive Positive None
e) 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.	Positive
f) Promotion of efficiency in the implementation and administration of the Code	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None

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5 Impacts and Costs

Consideration of Wider Industry Impacts

The ability to pay option fees to customers through the voluntary DSR process will permit that money to be invested by customers in back-up fuel facilities. This will assist those customers in maintaining crucial business processes during times of gas system stress

Costs

Information on the costs of managing this process will need to be collected from industry participants.

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
Some system costs are anticipated and hence this is a User Pays Modification.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
In accordance with the User Pays Guidance, this cost would be shared 50:50 between Shippers and Transporters.	
Proposed charge(s) for application of Users Pays charges to Shippers	
It is proposed that Shipper costs are recovered in proportion to the amount paid in transportation charges in the month prior to the date of implementation.	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> To be defined
Operational Processes	<ul style="list-style-type: none"> Some changes required
User Pays implications	<ul style="list-style-type: none"> Some implications for shippers, NG NTS and DNs is anticipated, including from changes to central systems.

Impact on Users	
Area of Users' business	Potential impact

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Impact on Users	
Administrative and operational	<ul style="list-style-type: none"> Shippers/suppliers may act as the conduit between NG and end customers for securing customer DSR.
Development, capital and operating costs	<ul style="list-style-type: none"> Some system changes may be required.
Contractual risks	<ul style="list-style-type: none"> No impact.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none">

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> Positive: Will provide greater certainty than at present over the volumes and locations of customer voluntary interruption at certain price points. This will facilitate more efficient system operation and decision making.
Development, capital and operating costs	<ul style="list-style-type: none"> Some additional administrative costs are anticipated.
Recovery of costs	<ul style="list-style-type: none"> No impact on NG revenue recovery.
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> None

Impact on Code	
Code section	Potential impact
Section Q	<ul style="list-style-type: none">

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Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	•
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	• None
Storage Connection Agreement (TPD R1.3.1)	• None
UK Link Manual (TPD U1.4)	• None
Network Code Operations Reporting Manual (TPD V12)	• None
Network Code Validation Rules (TPD V12)	• None
ECQ Methodology (TPD V12)	• None
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• May need to be considered in the light of potentially higher cash-out prices.
Uniform Network Code Standards of Service (Various)	• None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	• None
Gas Transporter Licence	• None

Other Impacts	
Item impacted	Potential impact
Security of Supply	• Positive
Operation of the Total System	• Positive
Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• Some

6 Implementation

No specific implementation timetable is being put forward at this stage, with the expectation that this will be considered by a Workgroup. However, it is recommended that implementation is not prior to when the Department for Energy and Climate Change has made public its decision on which, if any, additional measures it intends to put in place to better secure GB's gas supplies, pursuant to the "further interventions" report it is considering from Ofgem. In addition, it is considered desirable that NG shall conduct the relevant process to secure DSR to take effect from no later than 1 October 2014.

7 The Case for Change

Nothing in addition to that identified above.

8 Legal Text

To be prepared by the Transporters in due course.

9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0435 either progress to a workgroup for assessment (where it is determined by the Modification Panel that this does not relate to an ongoing SCR), OR, where the Modification Panel determines that this modification does relate to an ongoing SCR, be permitted by the Authority (in accordance with section 6.1.5 of the Modification Rules) to proceed to workgroup assessment.