

**CODE MODIFICATION PROPOSAL No. 0021**  
"Revision of the Emergency Cashout Arrangements"  
Version 1.0

**Date:** 02/06/2005

**Proposed Implementation Date:** 01/09/2005

**Urgency:** Urgent

**Proposer's preferred route through modification procedures and if applicable, justification for Urgency**

(see the criteria at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752\\_Urgency\\_Criteria.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf))

Transco NTS requests Urgent status in respect of this Proposal on the basis it believes that the proposed revisions to the Emergency Cash-Out arrangements should be implemented prior to Winter 2005/06.

Transco NTS is concerned that the current Emergency Cash-out arrangements do not provide the most appropriate incentives on Users to make suitable provision to avoid entering into an emergency situation or, to minimise the extent or duration of such an emergency. This Proposal seeks to provide appropriate incentives on Users in this area.

The Authority has expressed concern in relation to "price sensitive" deliveries to the UK gas market and also questioned whether the current Cash-Out prices during an emergency would provide sufficient incentive to maintain such deliveries.

In order to provide sufficient time for the industry to put in place appropriate arrangements for this coming winter Transco NTS believes that the decision on this Proposal should be provided as a matter of urgency.

**Nature and Purpose of Proposal (including consequence of non implementation)**

This Proposal seeks to:

- 1. Amend the setting of the Emergency Cash-Out prices from the prevailing single price of the 30 day average SAP to dual prices set at the point of market suspension:**
  - a. Emergency Cash-Out buy price will be set to the prevailing SMP buy; and
  - b. Emergency Cash-Out sell price will be set to the prevailing SAP.

Concerns relating to the Emergency Cash-Out (gas) processes were raised within the Ofgem Cash-Out Review Working Group (CORWG). CORWG recognised that the creation of the Storage Safety Monitors and the potential for a Monitor Breach to trigger an emergency had made the potential of a Gas Deficit Emergency (GDE) more predictable; by giving the market additional time to respond and create appropriate price signals leading up to the declaration of a GDE. During CORWG discussions it was noted that the current arrangements might not appropriately incentivise Users to take all actions that could be considered prudent prior to the commencement of an emergency.

One of the principle outcomes of CORWG discussions, to date, was the recognition that appropriate incentives were required to encourage Users to take appropriate actions through which a GDE might be avoided, or, its duration or extent reduced. As a result of the ongoing CORWG review, Transco NTS has considered the next steps that could be taken prior to the coming 2005-2006 Winter.

Any change to the GDE Cash-Out price determination should ensure that Users do not have a financial incentive to withhold gas, i.e. the Cash-Out price for “long” Users should be neutral, and ensure that Users have an appropriate financial incentive to offer demand-side response. Transco NTS believes that the Cash-Out price for “short” Users should reflect the marginal value of demand response. A single Cash-Out price cannot reflect both these values and hence dual Cash-Out pricing may be more appropriate.

Rather than being based on the rolling 30 day SAP, Transco NTS believes that the Emergency Cashout buy price should be set to the SMP buy price that is prevailing at the commencement of a GDE. Transco NTS believes that the setting of the Emergency Cashout buy price on this basis would provide the Users with signals that are better reflective of the actual market conditions immediately prior to a GDE.

The market should be encouraged to deliver and, where appropriate, provide demand-side response, in order to alleviate the extent and duration of the emergency. For example, where Users take long balance positions as a consequence of their actions to maximise beach deliveries or, by responding to emergency demand reduction notices, then these Users should not be financially disadvantaged. Thus Transco NTS considers that the Cash-Out price for a long-balance position should be set at the SAP price at the time immediately prior to the start of the GDE. Transco NTS believes that if implemented, this Proposal would align the Emergency Cash-Out prices to those market prices prevailing at the commencement of a GDE.

## **2. Introduction of a new Emergency Interruption Volume title trade and associated ‘trade’ payment**

The second element of this Proposal is seeking to assign the volumes of gas associated to GDE interruption actions undertaken by Transco NTS as an effective trade (NBP title transfer) between Transco NTS and the Users. The introduction of an Emergency Interruption Volume (EIV) title trade would ensure that the Users’ imbalance positions prevailing at the time of the GDE were maintained.

To ensure transparency and consistency with other Residual System Balancing actions, emergency interruption during a GDE would represent a market balancing action and thus any payment for such actions should be funded from Energy Balancing Neutrality.

In addition to the EIV trade, it is also proposed that for those occurrences of emergency interruption in a GDE, the Users would receive a level of financial recompense based on the EIV volume(s) multiplied by an Emergency Interruption trade price (rolling 30 day average SAP).

The association of a price with EIV trades would result in a payment from Energy Balancing Neutrality to the User of each Interrupted Supply Point. The EIV would be calculated to offset the gas deficit in a GDE and the net imbalance position of all Users should be equal and opposite to the aggregate imbalance of a new Transco NTS

‘Emergency Interruption Manager’ account. The net effect on Energy Balancing Neutrality would be a payment equal to the net “interrupted” imbalance at SMP buy and a payment out equal to the net “interrupted” imbalance at the Emergency Interruption trade price.

Further analysis is required to establish how the EIV would be allocated to individual Users and Transco NTS intends to provide this during the consultation for this Proposal.

### **Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence**

Transco NTS considers that this Proposal, if implemented, would better facilitate the following relevant objective as set out in GT Licence:

In respect of paragraph 1.e): Transco NTS considers that this Proposal might improve, “*the provisions of reasonable and 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 customer*”. The Proposal would ensure that Users continue to be incentivised prior to, and during an emergency, to satisfy their contracted demands.

In respect of paragraph 1.d): Transco NTS anticipates that by targeting cost during an emergency, Users will be encouraged to take appropriate actions through which a GDE might be avoided. Such actions might promote greater and more effective competition between shippers and suppliers.

### **Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested legal text**

#### **Proposed Timetable**

Sent to Ofgem requesting Urgency	01/06/2005
Ofgem grant Urgent status	02/06/2005
DMR issued for consultation	10/06/2005
Closeout for representations (15 working day consultation)	01/07/2005
FMR issued to Joint Office	08/07/2005
Modification Panel Recommendation	13/07/2005
Ofgem decision expected	22/07/2005

1. Setting of Emergency Cashout Prices - Transco NTS does not anticipate any significant impact on the UK Link systems.
2. Emergency Interruption Volume title trade and associated trade payment– impact assessment to follow.

#### **Proposed draft legal text**

1. Setting of Emergency Cashout prices

*UNC – TDP section Q 4.2.3.*

*“For the purposes of this paragraph 4.2 ~~the ‘relevant price’ is:~~*

- (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; 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) ~~the Value of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2~~*

*In each case ~~but~~ by reference to the ~~30 days preceding the~~ Day on which the Network Code Gas Supply Emergency Gas Deficit Emergency started”*

2. Emergency Interruption Volume title trade and associated payment

Transco NTS will provide the legal text for this element shortly.

**Code Concerned, sections and paragraphs**

UNC – TDP Section Q

**Proposer's Representative**

Ritchard Hewitt (Transporter)

**Proposer**

Richard Court (Transporter)

**Signature**

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