

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0502

"Changes to Commercial Arrangements in the event of a Gas Supply Emergency"

Version 1.0

Date: 13/11/2001

Proposed Implementation Date: 01/01/2002

Urgency: Non-Urgent

Justification

The Gas Industry Emergency Committee (GIEC) was formed in November 2000 to provide expert industry-wide advice on contingency planning and preparations for handling a large-scale gas supply failure and on factors – including any new or emerging developments – that could lead to large-scale gas supply failures, and on possible measures for mitigating the risk of such failures. GIEC had the aim of achieving significant improvements for winter 2001/02. Six sub-groups were formed; one of these, the Commercial Implications sub-group, was asked to consider the implications of suspending the normal commercial arrangements in the Network Code, and the resolution of any consequent problems. This sub-group has produced detailed recommendations in the form of a “High Level Principles” paper. However, implementation of a number of these recommendations would require changes to the Network Emergency Coordinator (NEC) and/or Transco Safety Cases, and could not be introduced in time for winter 2001/02. The sub-group recommended that Network Code changes not requiring Safety Case amendments should be made for winter 2001/02.

The Planning & Security Workstream has considered these recommendations, and developed this Modification Proposal. It contains those recommendations that, in Transco’s opinion, could be implemented without amending either Safety Case.

Nature of Proposal

It is proposed to define two types of gas supply emergency within the Network Code: a “Gas Deficit Emergency”, where inadequate gas supply leads to a national shortfall; and a “Transportation Failure Emergency”, where sufficient gas supplies are available to the system but due to a critical transportation constraint it is not possible to meet all demand in a particular area. These definitions will facilitate subsequent changes to Safety Cases and emergency procedures. Transco would determine which type applied in any emergency situation (but not both at once).

The emergency cashout price would be the arithmetic mean of the System Average Prices on the immediately preceding 30 days, multiplied by:

- two for a Gas Deficit Emergency, and
- 0.75 for a Transportation Failure Emergency.

Claims for financial loss (existing paragraph Q4.2.5) would be subject to the following principles:

- Allowed costs should be based on an appellant's total costs and not the cost of an individual source;
- Intra-group transfers should be deemed to be made at market price;
- "Windfall gains" should be netted off wherever possible;
- Reasonable administrative / legal costs of making a claim should be allowed, but subsequent costs of pursuing a claim should not be;
- These costs should be limited to 5% of the net claim;
- Net income from the value of electricity sold less cost of gas shall be taken into account in the case of a power station "directed on" under PGCA rules.

Purpose of Proposal

The current emergency arrangements are most relevant to a Gas Deficit Emergency. Definition of a Transportation Failure Emergency would facilitate the subsequent development of more appropriate arrangements for that scenario.

The revised emergency cashout arrangements would:

- Better reflect the supply shortfall or surplus for the two emergency types;
- Achieve greater consistency between User's commercial incentives and licence duties; and
- Reduce the number and size of claims for financial loss, and hence the time and effort taken to resolve matters after an emergency.

More detailed guidelines for claims would reduce the scope for disputes and the number and size of claims.

The proposal would therefore better facilitate the efficient discharge of Transco's obligations under its licence as regards emergencies.

Consequence of not making this change

No improvements to emergency arrangements would be achieved for winter 2001/02.

Area of Network Code Concerned

Section Q

Proposer's Representative

John J Bradley (Transco)

Proposer

Tim M Davis (Transco)

Signature

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