

## **CODE MODIFICATION PROPOSAL No. 00XX**

**“Introduction of a New Shipper Obligation in Relation to the Procurement of Gas Below the Gas Safety Monitors”**

Version x.x

**Date:**

**Proposed Implementation Date:**

**Urgency:** Non-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))

The principles behind this Proposal were discussed at the December meeting of the Transmission Workstream. It is intended that this proposal is to be discussed at the January Transmission Workstream with a view to it going out for formal consultation following the January UNC Modifications Panel. Implementation (should the Proposal be approved) should be timed to allow sufficient time for all parties to prepare prior to the start of the winter period 07/08.

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

*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 Report). 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.*

The issue of “Gas Reserve” and Safety Monitors\* has been high on the industry agenda since January 2006 when Ofgem set up the Gas Reserve Working Group (GRWG). National Grid NTS have previously taken a full and active role in discussions about potential changes to the current regime.

Discussions at the GRWG polarised into two areas which were commonly referred to as “above” and “below the line”. (The line being the storage Safety Monitor level as determined by National Grid.) The above the line debate culminated in UNC Mod Proposal 086 being raised by Gas de France which sought to require National Grid to contract for demand response ahead of the winter. This Proposal was eventually rejected by the Authority thereby reasserting and clarifying the current shipper and transporter obligations.

The below the line debate however was never fully concluded and Ofgem stated in its UNC 086 decision letter “that it is important to consider whether there is merit in developing the gas reserve arrangements further. Ofgem considers that it is appropriate to focus upon arrangements for winter 2007/08 within this context.” This Proposal concerns a concept that National Grid NTS believe was not considered as part of the GRWG debate and feel that the UNC modification process is an appropriate medium in which to test its relative merits and refine the Proposal.

The current Safety Monitor regime was introduced prior to winter 04/05 as a replacement for the previous Top-Up arrangements. National Grid NTS is obliged to set the Safety Monitor levels, based on information provided to it by industry parties, to ensure that sufficient gas is retained in storage in order to maintain safe control of the System\* and supplies to specific categories of Exit Point, in the event of a severe 1 in 50 winter.

These categories include all non-daily metered load (inc. domestic and smaller I&C loads), a small number of daily metered, DTI defined, priority consumers and “firm” gas exported via the Moffat NTS offtake. These sites are deemed to be “protected by monitor”. All other sites are deemed to be able to be “protected by isolation”, i.e. in the event of a gas supply emergency they can be safely isolated from the system and their isolation can be verified through interrogation of the meter datalogger or telemetered flow readings.

Where the safety monitor level is reached (or breached) in any category of storage, then a Network Gas Supply Gas Deficit Emergency\* would be declared by the Network Emergency Coordinator (NEC)\* and the NEC would direct storage operators to curtail further withdrawals. Users holding gas in store at an affected facility can claim compensation for any loss of revenue caused by such a curtailment.

The current compensation arrangements for storage curtailment were implemented in December 2005 following approval of UNC mod 071a. The process for calculating the level of compensation is complex and drawn out (the final sum is not known until at least 30 days after the end of any emergency) and at best only provides affected Users with an approximation of the value of the gas that they held at the start of the emergency. Under some circumstances if the gas flows are curtailed from storage and some time later the NEC directs stored gas to be used, Users may receive compensation and an emergency cash out price for their gas. Effectively therefore they could be paid twice. The compensation is paid from the balancing neutrality account and therefore is effectively funded by all active Users (at the time that the compensation is paid) and is not targeted towards those with a protected by monitor portfolio.

## **The Proposal**

It is proposed that each User will have a new UNC obligation to secure access to a volume of gas in storage equivalent to its proportion of the total protected by monitor market. In aggregate, the total volume of gas obliged to

be secured by all Users will be the same as the Stored Safety Gas Requirement\* in each Storage Facility Type\* as notified by National Grid NTS. The gas secured by the Users in response to the obligation must be held in storage until such time as the Safety Monitor is declined or removed or the gas reserved for a 1 in 50 is allowed to flow for that very purpose.

For example, a User with a 20% share of the market in the protected by monitor sector will have an obligation to secure (and hold) 20% of the Stored Safety Gas Requirement applicable to each Storage Facility Type. A User that does not deliver gas to exit points that are protected by monitor will have no requirement to secure any stored gas.

The obligation to secure stored gas may be met either through a direct contract with a Storage Operator(s)\*, or through a contract with a third party (or a number of third parties) in order to obtain rights over the gas in store.

All the current compensation arrangements (introduced by 0071a and 0052) payable for occasions when storage withdrawals are curtailed by the NEC will be removed. This will help to encourage active trading between Shippers that have an obligation to secure gas in storage and other parties that either have no such obligation or have secured excess stored gas to secure their obligation.

It is recognised that a number of newer storage sites have been granted exemptions from third party access obligations by Ofgem. These exemptions should not however prevent the protected by monitor Users from accessing the space (or gas) at these storage sites as a key condition of any exemptions is that effective anti-hoarding measures should be put in place. It is anticipated therefore that the market will provide sufficient timely access for all obligated parties across all Storage Facility Types including where necessary those sites with third party access exemptions.

### **Annual Process**

National Grid NTS will calculate the volume of gas that each User will be obliged to secure, based upon the Annual Quantities of all the protected by monitor System Exit Points\* in the User's portfolio, the total protected by monitor demand and the prevailing Stored Safety Gas Requirement.

National Grid NTS will notify each User of its Individual Stored Safety Gas Requirement for each Storage Facility Type by 1<sup>st</sup> October each year. This notification will be based upon the Gas Safety Monitors prevailing at that time and the User's portfolio position on [1<sup>st</sup> September].

Shippers are required to warrant that they have secured and will hold sufficient gas in each Storage Facility Type in order to meet their Individual Stored Safety Gas Requirements by 31<sup>st</sup> October each year.

Prior to the winter period, National Grid will notify each User of their indicative Individual Stored Safety Gas Requirements by 31<sup>st</sup> May based upon the expected Stored Safety Gas Requirement and the User's portfolio position on 1<sup>st</sup> May.

Where Safety Monitors are amended during the winter, National Grid NTS shall notify each User of its revised Individual Stored Safety Gas Requirement as soon as reasonably practicable following any such amendment.

Shippers are required to warrant that they have secured and will hold sufficient gas in each Storage Facility Type in order to meet their amended Individual Stored Safety Gas Requirements as soon as practicable following the amendment, but in any event they should do this with the lesser of;

- a) 21 days, or
- b) the number of days of stored gas remaining in each Storage Facility Type if gas is withdrawn at the maximum rate. Where the relative position of the gas in storage and the new Safety Monitor mean this is less than four days, then Users the default time for Users to provide warrant will be four days.

It is not expected that User portfolio changes will be particularly material after the initial view is taken on 1<sup>st</sup> September and this view will be used for all subsequent calculations of Individual Stored Safety Gas Requirements.<sup>1</sup>

**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**

National Grid NTS considers that this Proposal, if implemented, will better facilitate the following relevant objectives:

In respect of paragraph 1 (d)(i) *securing effective competition between relevant shippers*; by ensuring that all shippers conform to, at least, a minimum standard of security, the Proposal effectively levels the playing field between those taking a risk adverse view of the issues associated with a severe winter and those that may take a more risk-disposed view. Also this Proposal will quantify, for the first time, the minimum level of security required for each shipper on an individual basis, thereby assisting shippers with their winter planning processes.

In respect of paragraph 1 (e) *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 the Gas Safety Monitor Gas is secured by those shippers that will ultimately benefit from the gas in an emergency, the Proposal clearly demonstrates a commitment to security of supply standards for each shipper. Also by effectively removing this gas, at the tip of the supply stack, from the market on an individual shipper basis the Proposal may encourage alternative mechanisms such as contracted demand response or additional imported gas supplies. Where these alternative mechanisms are

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<sup>1</sup> The maximum portfolio change during winter 05/06 was around 2% of the total protected by monitor market.

reported to National Grid NTS this may result in a further reduction in Safety Monitors.

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

Transmission Workstream	4 <sup>th</sup> Jan 07
UNC Mod panel (for consultation)	18 <sup>th</sup> Jan 07
UNC Mod Panel (recommendation)	16th March 07
Ofgem decision expected	31 <sup>st</sup> May 07
Implementation (before)	1 <sup>st</sup> Oct 07

**Code Concerned, sections and paragraphs**

Section Q paragraph 5

**Advantages of the Proposal**

- ◆ Targets the requirement to hold stored gas at those that will be supplying the gas in a severe winter.
- ◆ Removes requirement for a complex and “imperfect” compensation regime
- ◆ Takes reserved gas out of the supply chain (unless a 1 in 50 winter occurs) and therefore increases the value of contracted demand response – therefore reducing risk of NGSE
- ◆ Better aligns UNC to the domestic security of supply provisions contained in the gas suppliers licence
- ◆ Incentivises additional supplies - therefore reducing risk of NGSE
- ◆ Helps PBM shippers to quantify storage requirements in a timely manner ahead of winter period
- ◆ Ensures all shippers comply to minimum security of supply standards that are proportionate to their individual portfolios and market share.

**Disadvantages of the Proposal**

- ◆ Reduces (to a very small degree) the flexibility open to Users in meeting the security of supply obligations. For example some Users may be planning to meet all security scenarios via flexible beach / interconnector supplies and /or contracted demand response from DM portfolio and may be ideally positioned to achieve this. These shippers would however also be ideally positioned to benefit from active trading with other parties holding stored gas.

**Implications of implementing the Modification Proposal on security of supply**

The Proposal, by obliging that a minimum quantity of gas is held in storage and targeting that obligation at those shipping gas to the protected by monitor consumers, reduces the risk of a monitor breach and hence a Network Gas Supply Emergency.

Also by withdrawing some stored gas from the gas supply stack (on an individual User basis) the proposal may increase the value of contracted demand response and hence encourage potential sites to enter into such contracts.

**Proposer's Representative**

Chris Logue

**Proposer**

National Grid NTS

**Signature**

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