

Draft Modification Report
Changes to Commercial Arrangements in the event of a Gas Supply Emergency
Modification Reference Number 0502
Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The original Modification Proposal as amended following discussions within the Energy and Capacity Workstream is as follows:

"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."

Representations are requested on this amended proposal and on the original proposal which suggested, in addition, that "net income from the value of electricity sold less cost of gas should be taken into account in the case of a power station 'directed on' under PGCA rules." should be a principle underlying claims for financial loss.

2. Transco's Opinion

Transco supports implementation of this Modification Proposal as 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 Users' commercial incentives and licence duties;
- Reduce the number and size of claims for financial loss, and hence the time and effort taken to resolve matters after an emergency.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Transco believes that implementation of this Modification Proposal would provide for more cost reflective payments to Users for gas supplied to the System in support of a Gas Supply Emergency. This would further facilitate the securing of effective competition between relevant shippers.

The benefit to Users of receiving more cost reflective payments would in turn better facilitate the efficient discharge of Transco's obligations under its licence in respect of emergencies.

4. The implications for Transco of implementing the Modification Proposal , including **a) implications for the operation of the System:**

In addition to its existing notification requirements, Transco, in its role as Network Emergency Co-ordinator, would be required to identify and notify Shippers of the category of Gas Supply Emergency.

b) development and capital cost and operating cost implications:

Transco is not aware of any development costs required to implement this Modification Proposal or of any implications for operating costs.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco anticipates that implementation of this Modification Proposal would not lead to an increase in costs.

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

Transco is not aware of any consequences this proposal would have on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco does not anticipate that there would be any consequences on the level of contractual risk to Transco under the Network Code as a result of implementation of this Modification Proposal.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco does not anticipate any development implications for its computer systems or the related systems of Users.

7. The implications of implementing the Modification Proposal for Users

Users are less likely to suffer financial loss due to better definition of the type of Gas Supply Emergency and subsequent financial impact.

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

Transco is not aware of any such implications of implementing this Modification Proposal.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco does not anticipate any consequences on the legislative and regulatory obligations and contractual relationships of each User and non-Network Code Party of implementing the Modification Proposal.

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

Advantages:

- Clearer and more effective rules and procedures for dealing with emergencies;
- Would enable Users to receive more cost reflective cash-out payments in the event of a Gas Supply Emergency.

Disadvantages:

- Transco has not identified any disadvantages.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco invites representations in respect of this Draft Modification Report.

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

Transco is unaware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is unaware of any such requirement.

14. Programme of works required as a consequence of implementing the Modification Proposal

Minor changes would be required to NEC procedures. As these changes are minor, it is understood that HSE approval to any revised Safety Case would not be required.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco recommends implementation of this Modification Proposal as soon as possible.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal be implemented.

17. Text

SECTION Q: EMERGENCIES

Amend paragraph 1.2.1 to read as follows:

"1.2.1 For the purposes of the Code a:

- (a) **"Gas Supply Emergency"** is a gas supply emergency....;
- (b) **"Gas Deficit Emergency"** is a Gas Supply Emergency which arises as a result of deliveries of gas to the System being insufficient for the purposes of meeting demand for gas on the System; and
- (c) **"Transportation Failure Emergency"** is a Gas Supply Emergency which is not a Gas Deficit Emergency."

Amend paragraph 1.2.3 to read as follows:

"....namely a Gas Supply Emergency (whether a Gas Deficit Emergency or a Transportation Failure Emergency) which involves...."

Amend paragraph 3.1.1(i) to read as follows:

"....

- (i)whether it is a Local or Network Gas Supply Emergency, whether it is a Gas Deficit Emergency or a Transportation Failure Emergency and (in the case of a Network Gas Supply Emergency...."

Amend paragraph 4.2.3 to read as follows:

"4.2.3 For the purposes of paragraph 4.2 the "**relevant price**" is calculated as:

$$\frac{X * Y}{\quad}$$

where:

X is the value of the arithmetic mean of the System Average Price....; and

Y is, in the case of:

- (i) a Gas Deficit Emergency, 2; and
- (ii) a Transportation Failure Emergency, 0.75."

Amend paragraph 4.2.5 to read as follows:

"in respect of the aggregate quantity of gas delivered to the System....

- (i)amount of such loss (and which may include an amount in respect of any administrative and professional costs incurred by the claimant for the purposes of submitting a claim);
- (ii)so that it will not suffer financial loss and in considering the amount which the claimant should be paid the claims reviewer will have regard to the criteria in paragraph 4.2.6;

....."

Add new paragraph 4.2.6 to read as follows:

"4.2.6 The criteria referred to in paragraph 4.2.5(ii) are:

- (a) account will only be taken of the claimant's total costs and total revenues (by reference to the relevant price) in relation to the aggregate quantity of gas delivered to the System on a Day;

- (b) the maximum amount that can be taken into account in respect of administrative and professional costs incurred in submitting a claim is an amount equal to 5% of the total amount payable (if any); and
- (c) no account will be taken of any administrative or professional costs incurred by the claimant following submission of the claim.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: