

TRANSCO WORKSTREAM REPORT

"Changes to Commercial Arrangements in the event of a Gas Supply Emergency" Version 1.0

1 Background to Modification Proposal

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. Also to consider 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. Of the six sub-groups that were subsequently formed, the Commercial Implications sub-group was charged with considering the implications of suspending the normal commercial arrangements in the Network Code, and the resolution of any consequent problems. Detailed recommendations were produced in the form of "High Level Principles" papers. As it was recognised that a number of the recommendations would require changes to the Network Emergency Co-ordinator (NEC) and or Transco/Safety Cases, the sub-group recommended that those changes not involving Safety Case amendments should proceed and Modification 0502 was raised.

2 Description of Modification Proposal

The Modification Proposal defines two types of gas supply emergency within the Network Code: a "Gas Deficit Emergency and "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 certain area. 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:

- 2.0 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:

1. allowed costs should be based upon an appellant's total costs and not the cost of an individual source;
2. intra-group transfers should be deemed to be made at market price;
3. "windfall gains" should be netted off wherever possible;
4. reasonable administrative/legal costs of making a claim should be allowed, but subsequent costs of pursuing a claim should not be;
5. these costs should be limited to 5% of the net claim; and
6. 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.

The sixth bullet was not part of the High Level Principles submitted to the work group but was added by the work group itself as a subject on which interested parties might make representations within the Network Code process.

3 Workstream Recommendation

At the November 2001 Modification Panel meeting, to which the Modification Proposal was presented, the Modification Panel failed to make a determination and referred the Proposal to the Energy & Capacity Workstream.

The Energy & Capacity Workstream discussed the Proposal at a Workstream meeting on 6 December 2001.

The Workstream discussion focussed on the sixth bullet point within the list of claims principles. In particular, it recognised that in an emergency situation profits could materialise under the Balancing & Settlement Code (BSC) and losses under the Network Code (NWC) and potentially vice versa. The Proposal as drafted appeared to some Workstream attendees to be asymmetric in focussing on potential profits from the BSC without acknowledging the potential losses. It was agreed that these issues would be best discussed thoroughly under Phase 2 GIEC recommendations (those affecting the NEC/Transco/Safety Cases). It was agreed that the reference in the third bullet to "windfall gains" was not intended to cover gains in the electricity balancing regime.

After discussion and clarification, particularly on the interactions between the electricity and gas balancing regimes, it was agreed to move forward by recommending to the December Modification Panel that the Proposal proceed to consultation on the proposed emergency cash out price and principles 1-5 of the claims for financial loss. Whilst the proposed legal text would only address principles 1-5, additional comments would be invited on principle 6. It was clarified that the Modification process allows for the Final Modification Report and, if necessary, the legal text, to reflect this type of representation.