

Representation For. 0035

"Revisions to Section Q to Facilitate the Revised NEC Safety Case"
Version 1.0

Date of Communication: 13/09/2005
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Slant: For
Strictly Confidential: No

Abstract

CIA Response to modification 35, "Revisions to Section Q to facilitate the revised NEC Safety Case."

As the Safety Case takes precedence over the Uniform Network Code then even if this modification were not approved the Safety Case would still enable the Network Emergency Co-ordinator to curtail storage or instruct Emergency Interruption in the case of an imminent Safety Monitor breach. The CIA is concerned about due process and that our members had no information of this potential issue during the discussions regarding the removal of top-up conducted in late 2004. We are not able to offer support or non-support, as we do not believe that due process has been followed.

CIA believes that Transco is now more reliant on consumers to help balance supply and demand, as Emergency Interruption may be required in the event of an imminent breach of a safety monitor.

We have been attending discussions at Ofgem through the Demand Side Working Group, and we are still interested to find out if Transco could consider entering into contracts for turndown to protect the Safety Monitors. This is a residual balancing role that would protect the gas system from entering into an emergency.

We have attended a number of workstreams to discuss this proposal, and our one concern regarding the legal drafting has not been clarified. We asked for an "imminent" breach of a Safety Monitor to be explained in the legal text for clause, TPD Section Q 1.2.3(d). We were informed that imminent means that day-ahead or within-day nominations indicate that the gas in storage will drop 1kWh below the Safety Monitor levels. Please can this be included in the legal drafting. This would aid the market in their understanding of an imminent breach.

Please see our responses to the questions asked in the Draft Modification Report, below.

If you wish to discuss our response, please speak contact myself on 020 7963 6718.
Kind regards,

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Questions from the Draft Modification Report

a) Would implementation incentivise Users to exhaust their storage stocks prematurely? This proposal may amend the way Users use their gas in storage.

b) Would implementation increase exposure on the gas market to very high price gas for those Users reliant on gas in storage to meet their daily gas demands?
If Users are unable to access their gas in storage then potential they could be exposed to gas market prices. However, it is difficult to determine the price of gas under this scenario.

c) Would implementation introduce or exacerbate any commercial disparity between Users holding gas in storage that is allowed to enter the System and that required to remain in storage? It certainly wouldn't be equitable.

d) Recognising the above and the potential for sterilising gas in storage, when a Network Gas Supply Emergency has been declared, would implementation adversely affect the economics of investment in storage?
It may make Users think twice about their reliance on storage

e) Would implementation lead to the introduction of perverse incentives when "command and control" of storage, is operating in parallel with the daily gas market?
There are many incentives on Users to not enter into an emergency, please note that Emergency Interruption can be invoked in parallel with operation of the daily gas market.

In respect to the User daily balancing incentives would implementation be beneficial to security of supply or would security of supply be jeopardised?

Implementation would protect the Safety Monitor for domestics and priority sites. CIA does not know how this modification will impact security of supply. However, for sites who are interruptible it could increase the probability of them being interrupted. Transco NTS clarified the following two issues;

(i) Priority load demand is NDM, including domestic and the firm DM consumers defined as Priority Consumers in accordance with DTI criteria.

(ii) In the event of an actual Storage Monitor breach this would result in a Stage 2 of a Network Gas Supply Emergency being declared by the Network Emergency Coordinator.

We thank Transco for clarifying that an actual Storage Monitor breach would result in a Stage 2 emergency.

Would implementation of this Proposal lead to additional quantities of contracted gas in storage being unavailable for use by the contracting party as expressed by some members of the Transmission Workstream?

Yes, if storage flows are curtailed due to an imminent breach of the safety monitor then the above statement could be true.

If implementation did lead to the creation of new perverse incentives would this lead to an increase in the cost of gas on the market?

CIA is unsure as to how this modification will impact on the cost of gas on the market.

Would implementation increase the requirement for interruptible contracts as identified by the Transmission Workstream? Such an increase might not be

popular with customers and, for certain Supply Points, might not even be possible.

Implementation might make Shippers consider contracts for turn down if they are not able to access gas in storage. CIA notes that interruption or firm-load shedding to prevent an emergency is a very different situation than contracts for commercial interruption. Certain sites are willing to consider turning down to prevent an emergency being declared, but this is a last resort provision.

Would implementation undermine the current contract value of storage as some Transmission Workstream members believe?

We are unsure as to how this modification/Safety Case change would amend the current contract value of storage.