

Draft Modification Report
Revisions to Section Q to Facilitate the Revised NEC Safety Case
Modification Reference Number 0035

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 9.6.

1. The Modification Proposal

The Proposal was as follows:

“Defined Terms. Where UNC defined terms are included within this Proposal the terms shall take the meaning as defined within the UNC. Key UNC defined terms are highlighted by an asterisk (*). This Proposal, as with all Proposals, should be read in conjunction with the prevailing UNC.

A revision to the Network Emergency Co-ordinator’s (NEC) Safety Case* was approved by the HSE in March 2005. The key commercial implication of the change to the Safety Case is the introduction of a new type of emergency known as a GSMR Safety Monitor Breach.¹ To enable the NEC to manage this type of emergency the NEC’s revised Safety Case details the actions to be taken, via the relevant Transporter*, to direct Users* and Storage Operators* to decrease their flows on to the primary system in the event of a potential or actual GSMR Safety Monitor Breach. This action of protecting the remaining stored gas at the affected type of storage facility* must be immediate and is therefore described within the revised NEC Safety Case as being part of the Emergency Stage 1. All other aspects of the current emergency arrangements remain unchanged including the suspension of commercial arrangements at Emergency Stage 2.

The HSE stated in response to the NEC’s* first proposed Safety Case revision in September 2004, that they wanted the recently introduced arrangements for the protection of the GSMR Safety Monitor* to be specifically outlined and demonstrated in the Safety Case. The revisions to the Safety Case were made following legal advice as to what the NEC’s specific GSMR duties would be following such a Safety Monitor breach. This legal interpretation of the NEC’s duties, post Network Code Top-up regime removal, identified that it would not be acceptable for the NEC to allow an increase in the risk of an actual Network Gas Supply Emergency (NGSE)*, by allowing gas to continue to flow from the affected storage facility or facilities where there was a clear and present intent that the Safety Monitor level for that type of Storage Facility had been, or was about to be, breached (further depleting critical stocks), whilst the relevant Transporter undertook indirect emergency interruption.

This Proposal is to align the UNC with the revised NEC Safety Case firstly by the introduction of the NEC’s ability to direct Users and Storage Operators, via the relevant Transporter(s), to turn down or curtail their deliveries of gas to the system in the event of a potential or actual GSMR Safety Monitor Breach under Stage 1 of a NGSE and secondly by clarifying the revised roles and obligations post Network Sales.

The following amendments are proposed in relation to the GSMR monitor:

¹ Definition proposed in Modification Proposal

- Potential and/or actual GSMR Monitor Breach is separately defined as a type of Network Gas Supply Emergency (NGSE)
- that the relevant Transporter(s), on instruction from the NEC, may direct the relevant storage operators to reduce or cease flowing gas in the event of a potential or actual GSMR Supply Monitor Breach that is effecting the Storage Operator's type of storage facility.

The following amendments are proposed to clarify the process post Network Sales:

- with the declaration of a NGSE, Transco NTS will identify demand side steps including demand reduction at DN offtakes. It is then the responsibility of the DNO to identify consequential demand side steps within the DN*
- with the declaration of Stage 4 whereby gas is allocated, Transco NTS will allocate gas by LDZ, it is then the responsibility of the relevant DNO* to allocate the gas within the LDZ

The following amendments are general to add clarity to the process:

- that the NEC may declare the NGSE stages (1-5) to prevent a supply emergency occurring either sequentially or by declaring a number of stages together
- for clarity, trades completed on the OCM before the OCM market has been suspended will be included within the relevant shipper's imbalance calculation.

Non-implementation of this Proposal would perpetuate the present misalignment between the NEC Safety Case and UNC.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The Proposer stated "This Proposal will further the relevant objectives set out in Standard Special Condition A11 and specifically (a) the efficient and economic operation of the pipe-line system by aligning the UNC with the current NEC Safety Case and will improve the efficient operation of the Emergency Procedures by adding clarity to the process. The Proposal will also further relevant objective A11 (c), the efficient discharge of the licensee's obligations under the licence, specifically Standard Special Condition A17 1. "The Licensee shall act in a reasonable and prudent manner in the operation of the pipe-line system to which this licence relates in so far as such operation may effect the operation of the pipe-line system of any other relevant gas transporter”

The Transmission Workstream considered the Proposer's position and certain members believed that implementation might not further the relevant objectives.

In particular, the current incentives on Users embodied within the daily balancing regime would be affected by implementation and these are related to the securing of effective competition between relevant shippers and relevant suppliers. For example;

- a) Would implementation incentivise Users to exhaust their storage stocks prematurely?
- 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?
- 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?

- 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?
- 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?

Transco NTS pointed out that these downsides had been identified in the circumstances that a Network Gas Supply Emergency had been declared. It could be argued that implementation would lead to improvements in market information and would sharpen incentives which would, in turn, serve to avert the emergency. However, certain Workstream members believed that some Users would be limited in the scope available to them to avert a Network Gas Supply Emergency.

Views are invited to address these questions and statements via this consultation.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer stated that “The Proposal will improve the security of supply by introducing clear roles, responsibilities and processes for the management and resolution of a potential or actual GSMR Storage Monitor breach.”

The Transmission Workstream recognised that parts of the Proposal, particularly 3.4.8 and 3.4.9, provided useful clarification of roles in the context of the current DN operation.

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

Views are invited to address this question.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including

a) implications for operation of the System:

The Proposer stated that “The Proposal will establish clear processes for the management of storage flows during a NGSE to secure remaining storage stocks to meet priority load demand and other Protected By Monitor consumers.”

A Storage Operator pointed out that efficient operation of the System is in itself dependent upon the contracts in place outside UNC not least contracts between Storage Operator and Storage Users.

Transco NTS clarified the following two issues;

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

Views are invited on these statements or any other effects.

b) development and capital cost and operating cost implications:

The Proposer stated that “No implications have been identified”

Views are invited as to whether implementation would lead to increase in the costs of balancing the system as some members of the Transmission Workstream have suggested?

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

The Proposer stated that “Transco NTS do not propose any additional cost recovery.”

The Transmission Workstream recognised that if implementation of this Proposal did lead to additional balancing costs, this would be recovered through the existing energy balancing neutrality mechanism.

Views are sought as to whether there are any different views other than what is stated above.

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

Neither the Proposer nor the Workstream identified any such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Neither the Proposer nor the Workstream identified any such consequence.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

The Proposer stated that it “does not envisage any such consequences.”

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The Proposer stated that it “does not envisage any such consequences.”

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?

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?

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.

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

Views are invited to address these questions via this consultation.

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

Storage Operators attending the Transmission Workstream believed that implementation would significantly increase the balancing risk for storage operators – especially until storage contracts were amended. Storage Operators also expressed the concern that implementation would undermine the value of storage assets and, as a result, reduce the incentive to develop storage assets.

Some members of the Transmission Workstream believed that implementation would increase the probability of interrupting customers but the argument was recognised that this might save greater interruption in the subsequent stages of a Network Gas Supply Emergency.

Transco NTS suggested that gas associated with the protection of domestic or priority loads would be better conserved as a result of implementation.

Views on the above are sought via this consultation.

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

Neither the Proposer nor the Workstream identified any such consequences.

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

Advantages

- The Proposer stated “The alignment of the UNC with the NEC Safety Case will provide the Users clarity in respect to the NGSE process.”
- Greater clarity in the role of the relevant Transporters during a Network Gas Supply Emergency
- Gas associated with the protection of domestic or priority loads might be better conserved.
- Within the Transmission Workstream, Transco NTS suggested that implementation would lead to improvements in market information and sharpen incentives.

Disadvantages

- Some Workstream Members believed that whilst implementation would offer enhanced security of supply in the short term, if investment in storage assets were inhibited, this would be to the detriment of efficiently maintaining security of supply in the longer term.
- Some Workstream Members felt that implementation would have an adverse effect on the incentives within the daily balancing regime. This would apply to Users relying upon storage to meet their daily balancing requirements. In addition, implementation might create new perverse incentives due to the continuing operation of the daily gas market in parallel with an element of “command and control” on storage flows.

- Potential need to renegotiate Storage Contracts and for Users to contract for additional interruption.
- Potential increase in balancing costs for the NTS System Operator.

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

This report reflects initial views of the Proposer and the discussions raised at the Transmission Workstream meetings.

No written representations have been received to date. Representations are now invited.

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

The Workstream recognised that this Modification Proposal seeks to align the UNC with the NEC Safety Case which is a requirement of the Gas Safety (Management) Regulations.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Neither the Proposer nor the Workstream identified any such requirement.

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

Neither the Proposer nor the Workstream identified any such consequence.

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

The Proposer put forward a timetable to facilitate an Ofgem decision in October 2005.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

Neither the Proposer nor the Workstream identified any such implications.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18. Legal Text

TPD Section Q

Delete paragraph 1.2.3(b)(iv) and amend paragraph 1.2.3(b) to read as follows:

(b)

- (i)
- (ii)
- (iii) from the Total System;
- ~~(iv) or a potential or actual breach of a Safety Monitor.~~

Amend paragraph 1.2.3(c) to read as follows:

- (c) a **“Network Gas Supply Emergency Critical Transportation Constraint Emergency”** is a Network Gas Supply Emergency which is not a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency;

Insert the following as new paragraph 1.2.3(d) and re-number the existing paragraph 1.2.3(d) as paragraph 1.2.3(e):

- ~~(d) a **“Network Gas Supply Emergency Safety Monitor Emergency”** is a Network Gas Supply Emergency which arises as a result of an imminent or actual breach of a Safety Monitor; and~~

Amend paragraph 1.2.6(a) to read as follows:

- (a) **“Stage”** means a stage (from 1 to 5) of the Network Gas Supply Emergency Procedure as described in the NEC Safety Case, and a Network Gas Supply Emergency is of a particular Stage where the NEC has determined that the relevant stage of such procedures applies in relation to such Gas Supply Emergency. For the avoidance of doubt, nothing shall prevent the NEC declaring Stages sequentially or declaring a number of stages together;

Amend paragraph 3.1.1(a) to read as follows:

- (a) inform Users not a Potential Network Gas Supply Emergency) whether it is a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency or a Network Gas Supply Emergency Critical Transportation Constraint Emergency, and

Amend paragraph 3.2.2 to read as follows:

3.2.2 In a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency the application of Section D (other than paragraph 2.4 thereof) will be suspended and with effect from the time such Network Gas Supply Emergency ~~Gas Deficit Emergency~~ was declared, and in respect of any later Gas Flow Day falling within the duration of ~~a such~~ Network Gas Supply Emergency ~~Gas Deficit Emergency~~, Transco NTS will not take any Market Balancing Actions; and (in lieu thereof) the Emergency Procedures will apply and Transco NTS's decisions as to the delivery and offtake of gas to and from the Total System will be implemented pursuant to paragraphs 3.3 and 3.4.

Amend paragraph 3.3.2 to read as follows:

- 3.3.2 In a:
 - (a) Network Gas Supply Emergency Gas Deficit Emergency each User shall comply with all instructions by Transco NTS to deliver gas to the Total System at System Entry Points in such quantities and at such rates as Transco NTS may specify, up to the maximum quantities or rates which are

available (by the exercise of all contractual rights as to the supply of gas or otherwise) to the User, irrespective of the commercial terms of such supplies, and irrespective of the quantities of gas being offtaken from the Total System by the User; and

(b) Network Gas Supply Emergency Safety Monitor Emergency (including any Potential Network Gas Supply Emergency Safety Monitor Emergency) each User shall comply with all instructions by Transco NTS to reduce or cease the delivery of, or refrain from delivering (as the case may be), gas to the Total System at System Entry Points comprised in relevant Storage Connection Points by such quantities and to such rates as Transco NTS may specify, irrespective of the commercial terms applicable in respect of such System Entry Points or flows of gas, and irrespective of the quantities of gas being offtaken from the Total System by the User. For the purposes of this paragraph (b), a “relevant Storage Connection Point” is a Storage Connection Point relating to a Storage Facility that is of the Storage Facility Type to which the Network Gas Supply Emergency Safety Monitor Emergency (or Potential Network Gas Supply Emergency Safety Monitor Emergency) relates.

Amend paragraph 3.3.3 to read as follows:

3.3.3 In any:

(a) Network Gas Supply Emergency Transco NTS may (where appropriate, in lieu of applying paragraph 3.3.2 in relation to gas-in-storage) issue direct instructions to the Operator of any Storage Facility in relation to which appropriate arrangements exist in the relevant Storage Connection Agreement to deliver gas to the Total System at the relevant Storage Connection Point (in which case relevant Users shall be treated as having delivered to the Total System, at the relevant Storage Connection Point, such quantities of gas as have been notified to Transco NTS by the relevant Storage Operator); and-

(b) Network Gas Supply Emergency Safety Monitor Emergency (including any Potential Network Gas Supply Emergency Safety Monitor Emergency), Transco NTS may (where appropriate, in lieu of applying paragraph 3.3.2 in relation to gas-in-storage) issue direct instructions to the Operator of any relevant Storage Facility to reduce or cease the delivery of, or refrain from delivering (as the case may be), gas to the Total System at the relevant Storage Connection Point (in which case the Transporter shall not be in breach of Section J3.2 where Transco NTS issues such an instruction). For the purposes of this paragraph (b), a “relevant Storage Facility” is a Storage Facility that is of the Storage Facility Type to which the Network Gas Supply Emergency Safety Monitor Emergency (or Potential Network Gas Supply Emergency Safety Monitor Emergency) relates.

Insert the following as new paragraphs 3.4.8 and 3.4.9 to read as follows:

3.4.8 In the event of a Network Gas Supply Emergency, Transco NTS will identify the demand-side steps (if any required), including the reduction or discontinuance of offtake of gas at NTS/LDZ Offtakes. It will then be the responsibility of each Transporter to identify the consequential demand-side steps (if any) that require to be taken in relation to that Transporter’s System, including the reduction or discontinuance of offtake of gas at Firm as well as Interruptible Supply Points.

3.4.9 In the event of Stage 4 being declared in relation to a Network Gas Supply Emergency, Transco NTS will allocate available gas to one or more LDZs. It will then

be the responsibility of the Transporter to allocate such available gas within such LDZ.

Amend paragraph 3.5.2 to read as follows:

3.5.2 In the event as if all references in such paragraphs to a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency were to the Network Gas Supply Emergency Critical Transportation Constraint Emergency.

Amend paragraph 4.1.1 to read as follows:

4.1 In respect of each Day or part of a Day during a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency:

- (a)
- (b)
- (c)
- (d)
- (e)
- (f)
- (g)
- (h); and
- (i)

Amend the heading of paragraph 4.2 to read as follows:

4.2 Clearing of gas balances following a certain types of Network Gas Supply Emergency ~~Gas Deficit Emergency~~

Amend paragraph 4.2.1 to read as follows:

4.2.1 In a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency, Section F2 will apply on such modified basis as is appropriate to give effect to paragraph 4.2.2 (and in particular without the application of any tolerances, or of any price other than the relevant price under paragraph 4.2.3).

Amend paragraph 4.2.2 to read as follows:

4.2.2 In respect of each Day during a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency:

- (a) Transco NTS shall pay to each User ~~who delivered on a Day more gas to the Total System than it offtook~~ has a positive Daily Imbalance on such Day an amount determined as the User's Daily Imbalance multiplied by the relevant price, subject to paragraph 4.2.5;
- (b) each User who ~~offtook on a Day more gas from the Total System than it delivered~~ has a negative Daily Imbalance on such Day shall pay to Transco

NTS an amount determined as the User's Daily Imbalance multiplied by the relevant price.

Amend paragraph 4.2.4 to read as follows:

4.2.4 In applying Section F4 in respect of Days during a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency, to the extent amounts payable by Transco NTS to Users pursuant to paragraph 4.2.5 exceed the amounts payable pursuant to paragraph 4.2.2, the excess amounts will be taken into account as though such amounts were Market Balancing Action Charges payable by Transco NTS (for the purposes of Section F 4.4.3).

Amend paragraph 4.2.5 to read as follows:

4.2.5 Where a User (the "**claimant**") believes that it will suffer a financial loss by reason of being paid only the relevant price in respect of any gas delivered to the Total System on a Day during a Network Gas Supply Emergency Gas Deficit Emergency or a Network Gas Supply Emergency Safety Monitor Emergency (but not in respect of a quantity of gas which exceeds the amount of the claimant's Daily Imbalance if any under paragraph 4.2.2(a)):

- (a)
- (b)
- (c)
- (d); and
- (e)

TPD Section Z

Amend paragraph 6.7.1 to read as follows:

6.7.1 On any Day during a Network Gas Supply Emergency (including a Potential Network Gas Supply Emergency) Transco LNG Storage may take steps to increase and/or decrease (as the case may be) the flow rates at a Transco LNG Storage Facility in order to comply with Transco NTS instructions pursuant to Section Q3.3.3 notwithstanding Users' Nominations in respect of such Day, and where Transco LNG Storage takes such steps the aggregate quantity withdrawn on such Day will be apportioned between Users in the proportions in which they have gas-in-storage on such Day.

Amend paragraph 6.7.2 to read as follows:

6.7.2 In respect of each Day or part of a Day during a Network Gas Supply Emergency (including a Potential Network Gas Supply Emergency), the provisions of Section Z as to Storage Overrun Charges, Storage Management Charges and Injection Scheduling Charges will not apply, and the rules as to injection and withdrawal shall be modified or disapplied to the extent necessary to give effect to this paragraph 6.7.

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive Office, Joint Office of Gas Transporters

Signature:

Date :