

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

Version 4.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

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.

Note 1. Definition proposed in Modification Proposal

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. 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:

- 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

In its response, TNTS stated that:

- *"It furthers relevant objective A11 (a), the efficient and economic operation of the pipe-line system, by aligning the UNC with the current NEC Safety Case.*
- *It will improve the efficient operation of the Emergency Procedures by adding clarity to the process and communication paths.*
- *It 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 Proposal does not alter the current provision of reasonable economic incentives embedded with the UNC as it is merely clarifying the roles and the communication process in the event of a potential or actual Safety Monitor breach."*

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.

Transco NTS pointed out, at that meeting, 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.

TD considered that, if implemented, this proposal would align the UNC to the Safety Case, which, *"would be consistent with furthering the relevant objectives set out in Standard Special Condition A11 of the Transporters' Licence, since adding clarity to the commercial arrangements prevailing at the time of an emergency in the UNC is consistent with the licensee's obligation to promote the efficient and economic operation of the pipeline system and, by setting out such commercial arrangements in the UNC, ensures that all UNC parties understand the risks associated with changes to the NEC's safety case, thereby promoting competition between shippers."*

SGD stated that, *"aligning the UNC with the NEC Safety Case does not equate to efficient and economic operation of the pipeline system, nor would we expect Ofgem to make this presumption."*

SSE did not believe that *"aligning the UNC with the current NEC Safety Case will improve the efficient operation of the emergency procedures or the economic and efficient operation of the NTS pipeline system. Indeed, given that it appears that the NEC Safety Case revision has already granted "command and control" powers to the relevant Transporter acting on behalf of the NEC does the UNC need to change at all?"*

GP stated that the Modification Proposal did not promote greater competition between shippers and suppliers as, *"it is discriminatory between users employing different tools to balance their portfolios. The modification also risks putting additional costs on to the users of some classes of storage users rather than sharing the costs of securing the system."*

SGN expressed concern that the changes proposed, *"fundamentally change the dynamics of the way the storage product is used, the economics, risk profile and the consequential impact on the rest of the system, Transporters and Users."* SGN believed that this Proposal, *"could be detrimental to the efficient and economic development of and operation of the pipeline system and ultimately security of supply. Such perverse disincentives would undoubtedly be detrimental to those Users whose behaviour should be rewarded. This is likely to be detrimental to competition and ultimately security of supply."*

AEP considered that, *"the proposal may incentivise shipper and transporter actions that are inconsistent with the efficient and economic operation of the system. This could arise due to the lack of clarity over when the NEC would call*

stage 1 of a NGSE and operation of command and control of storage alongside the OCM or where shippers are incentivised to withdraw gas from storage earlier in the winter period to prevent their gas in storage being sterilised, which could artificially distort the gas market.”

CSL believed that, *“this change and modification is contra to the relevant objective for “securing effective competition” because it causes storage flows to reduce in a non-emergency situation without considering other mechanisms which could compete to avert the emergency.”*

EW stated that *“The proposal is likely to encourage Users to withdraw gas from storage facilities prematurely, which in turn will inflate peak day prices and compromise system security. In addition the effective restriction placed upon the commercial operation of storage facilities is likely to deter additional investment in new, or existing storage facilities. These outcomes are clearly inconsistent with the Relevant Objectives against which the proposal should be tested.”*

The discussion at the Transmission Workstream concluded that there were five questions that should have been addressed within the context of furtherance of the relevant objectives. These have been listed below as (a) to (e), together with the consultation responses.

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

TNTS did not believe that *“the Proposal would incentivise Users to withdraw their storage stocks prematurely. On the contrary the introduction of the Network Gas Supply Emergency Safety Monitor Emergency will clarify the need to retain the ability to call on stored gas as a part of a portfolio of supply options in order for Users to manage their individual gas supply obligations and prevent the occurrence of such an emergency.”*

CSL believed, *“More rapid reduction in storage stocks will lead to inefficient use of that gas and ultimately lead to more risk of constraints, which will cause higher gas prices.”*

GP considered that, *“Were shippers to believe that a breach of the storage monitor levels is probable they will try to withdraw as much gas as they can. The monitoring of gas in store will become a prime focus over the winter rather than shippers looking for the most economic supplies as they will not want to end up with a stranded asset in the form of gas “locked in” store. In fact we suspect the market may cause an earlier monitor breach if it believes one is likely due to over reaction. This seems to be contrary to the intention of the modification.”*

EDF(E) stated that, *“Monitor and storage levels are now openly published and shippers are now able to identify whether a potential emergency is imminent. Prices during this period are likely to be high thereby fuelling the need for extra storage withdrawals even though the system may be in a healthy state. This adverse market reaction is neither economic nor efficient and would only expedite, or possibly prolong, an emergency making it counter productive to ensuring system security.”*

Star stated that, *“Storage Users may take a commercial view that it is better to deplete their stocks of gas in store earlier so as not to be in a position that their stocks are sterilised. This will of course make the constraining of storage withdrawals more likely.”*

SGN believed that if this Proposal were implemented, there would be *“a real likelihood that Users will withdraw gas from storage early in the winter or as soon as the system starts to show signs of stress. This is at odds with the original principle behind the mechanism, which was to ensure sufficient gas in storage for use throughout the winter.”*

EDFT stated that *“Clearly, if it becomes apparent that a potential breach is imminent, Users knowing that it is possible that withdrawals maybe stopped will look to flow gas at higher rates. Indeed, it may be the case that the market will “overreact” to the potential breach and prices may become artificially inflated adding extra incentive for Users to withdraw gas from storage.*

In the event that this behaviour is encouraged then we would argue that it is counterproductive to facilitating system security as storage facilities are exhausted on relatively low demand days.”

RWE's opinion was that, *“this may increase incentives on storage users to deplete their gas in store faster than they otherwise might have done, increase the balancing cost exposure of storage users and increase the likelihood of command and control actions being taken prematurely before other mechanisms and options have been exhausted.*

It also seems to be somewhat conflict with the sentiment expressed by Ofgem in their final conclusions document on the Review of Top Up Arrangements in Gas Proposals published last August.”

SGD stated that the proposal could, *“ increase incentives on shippers to deplete their storage stocks at a greater rate than they would at present. The incentive will be to ensure that stocks are taken out when approaching the monitor levels to ensure sufficient revenues for balancing costs created by the constraint on withdrawals” and “Any increased costs will pass to all consumers, including domestic consumers.”*

WEL stated that *“It may affect the way in which storage capacity is used by some players, rather than them just considering fulfilling the needs of their customers, which may adversely effect the effective operation of the market. This may reduce the amount of supply-side flexibility that is available to the system at certain times;”*

SSE believed that *“if implemented this proposal will lead to distortions in market behaviour. As storage levels reduce, players may be reluctant to nominate storage withdrawal at times of relative system stress for fear that the safety monitor may be breached. Perversely, the proposal would encourage shippers to exhaust their storage stocks prematurely because of the fear of their gas being “stranded” and their resulting exposure to a volatile market.”*

EW stated that *“The proposal is likely to encourage Users to withdraw gas from storage facilities prematurely, which in turn will inflate peak day*

prices and compromise system security. In addition the effective restriction placed upon the commercial operation of storage facilities is likely to deter additional investment in new, or existing storage facilities. These outcomes are clearly inconsistent with the Relevant Objectives against which the proposal should be tested.”

- (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?*

TNTS agreed that “the Proposal may increase the potential for exposure to high gas prices for some Users that have placed a reliance upon storage holdings to meet their contracted demands. However this should be balanced against the industry benefit of ensuring that sufficient storage stocks are maintained for all Non-Daily Metered consumers (including domestic) and Priority Loads to meet their demands during a severe Winter period (1 in 50).”

EDF(E) stated that, “the risks associated with this modification relate to the market over reacting to a "potential" emergency following low storage levels. This may artificially inflate prices and affect storage Users ability to withdraw gas at times of need to support their portfolios. This may decrease the demand for physical storage products and increase the reliance on physical gas flows ahead of time, which would push up prices in the forward market for winter periods. Any extra industry risks, which may drive up wholesale gas prices are not desirable during this period of unprecedented high energy prices.”

SGN contended that, “Users who have acted prudently and taken steps to mitigate the risk of supply shortfalls and to balance demand could, through no fault of their own, find that they do not have access to gas in storage. The situation is likely to be exacerbated by the likelihood that at that point in time market prices are likely to be rising. If Users are unable to find alternative sources of gas they will be subjected to an imbalance, caused through no fault of their own, and higher than average cashout prices. SGN believes that at worst this will act as a disincentive for Users to put gas in storage.”

ML noted that, “Given Transco’s concerns expressed elsewhere about how interrupted shippers that are short should not benefit from emergency cash out arrangements, it appears remiss not to consider the implications on shippers that may be forced into an imbalance position because gas supplies in store are commandeered.”

EON expressed concerns that “if the marginal emergency cash-out price is implemented” Users may be “less likely to be able to remedy a short position in the market might then be hit by a penal emergency cash-out price.”

CIA considered that, “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.”

EDFT stated that “market sentiment is likely to exacerbate price responses and directly impact those Users reliant on storage to support their daily needs. It seems entirely plausible that certain players could use this

mechanism to generate excessive profits through trading i.e. those which are not impacted by the embargo.”

TGP considered that “A potential or actual emergency may be initiated for purely technical reasons despite substantial gas volumes being made available at other entry points to meet demand. Alternatively it may strand gas in storage precisely at the time when it may be needed and consequently lead to substantially increased gas costs/prices that are not reflective of the underlying supply demand conditions.”

WEL stated that “Higher costs for users, and thus higher prices for consumers will follow the implementation of this proposal, particularly resulting from higher system prices and overall balancing costs;”

SSE believed that “implementation could lead to an increase in the costs of balancing the system as a result of stranding gas in storage.”

EW stated that “In essence, the proposal seeks to maintain system security by targeting certain storage Users, depending on which class of storage facility breaches the prescribed monitor levels. On this basis, it would seem that those Users who have acquired storage capacity to meet their needs, particularly high demand from their portfolio of customers, are limited in when they can access gas in store. We suspect that if this proposal were to be implemented it would undermine certain Users storage provisions and ultimately lead to additional costs which ultimately will be borne by customers.”

EW stated that it was “very concerned with the potential impacts the proposal would have on the gas wholesale prices which have increased exponentially over recent months. energywatch believes that any potential changes to the UNC which place additional upward pressure on wholesale prices should be viewed with express caution.”

- (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?*

EDF(E) considered that, “if Transco was able to discriminate between storage facilities in determining which to restrict then this statement would be true. For example, monitor levels at short-term storage facilities, which have rapid injection and withdrawal rates, could easily be breached on a day but yet restricting withdrawals could jeopardize system security as the rapid withdrawal of gas could avert a full scale emergency.”

ML noted that, “Storage users will be subject to significant losses should the use of storage facilities be constrained as a result of this type of emergency. The most significant impact will fall on those shippers that have not removed gas from storage and are therefore not responsible for the breach of the GSMR Safety Monitor.”

EON considered that, “It would be particularly inequitable if a prudent shipper that held back from withdrawing gas from store to cover potential high demand periods later in the winter was disadvantaged because other shippers had depleted stocks of gas at a faster rate and this prevented them from accessing storage gas, when needed. In such circumstances, a shipper

should be entitled to receive a payment from Transco for the gas it was forced to keep in store, which at least covers any consequential imbalance position, which may arise from gas being effectively locked in store.”

CIA believed that such arrangements, *“certainly wouldn't be equitable.”*

EDFT stated that this is “Particularly true of those Users who hold gas in relatively small quantities. Also those who hold gas in smaller facilities which are immaterial in relation to other sites and general security of supply. EDFT believes that the monitor approach is far too simplistic as it fails to recognise the importance of injectability and deliverability. The monitors are based on gas-in-store, overlooking the critical contribution of injectability and deliverability on security of supply.

EDFT owns and operates the Hole House Farm facility which unlike other “similar” facilities e.g. Hornsea, has the capability to transfer from maximum injection to maximum delivery within hours. Curtailing the operations of Hole House, which in space terms is immaterial when compared to Hornsea, will negate the positive impact it can have in supporting the system. We would draw your attention to the role Hole House played in assisting the system during the recent summer season. Purely, by reacting to economic signals Hole House moved from injection to delivery in very short timescales and as a result made significant contributions in achieving acceptable levels of system balance. This experience underlines the important role rapid churn facilities can play in supporting the system in an environment driven by economic signals.”

SSE stated that “In a situation where storage is subject to command and control arrangements, but the market has not been suspended, such powers will distort the market and are not appropriate. The proposal will therefore have an adverse effect on the operation of the market, and thus distort competition in the provision of storage and related flexibility services. It will also be detrimental to facilitating competition between shippers and suppliers, with knock-on effects for customers, particularly those customers that are “protected” by the Safety Monitors. One of the arguments for removing top-up was that it would benefit the market and competition in shipping and supply. We consider that the NEC safety case changes and this proposal if implemented will have the opposite effect.”

- (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?*

TNTS did not agree that “the Proposal will have a material impact on the economics of investing in storage facilities. Transco NTS considers that such decisions are made primarily upon the likely normal operation of a facility, Network Gas Supply Emergencies are by their nature rare events and therefore the economics around such events are of a lower materiality when compared to the economics throughout the working life of a facility. Also the addition of new storage options to the market will have the effect of making a Network Gas Supply Emergency Safety Monitor Emergency less likely.”

As a result of Storage Users being potentially exposed to high imbalance prices on days where storage withdrawals are constrained, **Star** believed that this might reduce, *“the attractiveness of storage from the Users point of view and may lead to lower storage bookings and less storage development.”*

EDF(E) believed that this Proposal could, *“undermine the effectiveness of the UK NBP market and lead to lower levels of market liquidity at a time when levels are already at an all-time low. The economics of new storage investments would change as shippers look to sign more flexible gas supply contracts with swing or opt for “virtual” storage contracts or more complex option trading as a way of mitigating their balancing risk. We note that there are a number of new storage assets being built or requesting planning permission which may not be completed if the market risks and commercial signals change.”*

CSL believed that, *“This mechanism introduces new penalties and incentives on Storage users, Storage facility owners and future UK storage investment.”* CSL believed that there was an, *“Increased risk of using Storage caused by sterilised gas in store and resultant balancing costs will result in increased investment risk in storage facilities and ultimately lead to increased gas supply costs to end users.”*

GP stated that, *“It must also be recognised that the modification would undermine the value of the storage positions that some users have taken. When buying storage the value is assessed on the basis that the facility can be used at times of system stress. Knowing that the facility may not be available when a user may place most value on it alters the price they would have been willing to pay. This ultimately impacts the value of the facilities and the economics of new build.”*

EON stated that, *“the economics of investment in storage would be weakened and contracts already in place for storage this winter would be undermined. Users may have already paid for gas in store, ahead of this winter. Any proposal, which then supersedes those arrangements to prevent those Users withdrawing that gas at a time when it is of greatest value to them, is fundamentally flawed and would undermine the current contract value of storage and reduce the incentive to develop storage assets, thereby threatening long-term security of supply.”*

SGN was *“concerned that the proposal fundamentally alters the dynamics of the market, the storage product and could create perverse disincentives for those who have acted prudently to ensure they have sufficient suppliers to meet demand and gas in storage. We believe there is a risk that depending on the level at which the Safety Monitor is set, gas could become sterilised in storage at the start of and throughout the winter.”*

WEL stated *“The value of storage projects would clearly be adversely affected and this may lead to less new capacity being made available to the market over the long term;”*

EDFT stated *“Given that storage is acquired to supply gas in response to market signals, any rule which inhibits this behaviour will undermine investments. Not only will there be a disincentive to build new storage, or*

enhance additional facilities, but Users will be reluctant to purchase storage capacity if there is a possibility that it is constrained.”

- (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?*

GP and Star believed that introducing command and control measures whilst the market remained operational was not appropriate.

GP considered that, *“the command and control measures that would result from this modification, in a competitive market, are only appropriate at times when the system is operating under emergency procedures. It undermines the operations of the market to know that the system operator can take control of assets and the gas they hold at times of system pressure rather than leaving it to the market to respond.”*

Star commented that, *“This modification proposal is fundamentally flawed as it muddies the separation between a market based system and a command and control system. If market prices are insufficient to achieve a suitable outcome in terms of security of supply the answer is not to expropriate rights of a single type of market participant.”*

EON considered that, *“This proposal is inconsistent with Transco's role as a residual balancer. Such unnecessary interference in the market would impinge on the ability for Users to respond to market signals to avert an emergency. Stage 1 of an emergency indicates to the market that there is a potential gas emergency, where there is sufficient time and sufficient gas available, for the primary system to be rebalanced without recourse to Stage 2; this includes maximising the availability of linepack, storage and interruption. It would not be possible for shippers to maximise the availability of storage if this proposal were implemented as National Grid would be unduly withholding it from the System. It is clear, therefore, that this proposal creates a barrier to offering response to avert an emergency and undermines the concept of storage, of meeting consumer demand at peak periods.”*

AEP considered that, *“in general the market should be allowed to function to manage the supply / demand balance free from intervention by transporters and that command and control mechanisms are incompatible with freely functioning markets. We can see no case for any elements of command and control operating alongside the OCM. In our view this would fundamentally undermine the commercial contract struck between shippers and storage operators and could have all or any of the impacts identified by the Transmission workstream and noted in the draft modification report.”*

AEP noted Ofgem's, *“rejection of modification 635 which sought to keep the OCM open during stage 2. The main reason for rejection was the risk of unintended consequences and lack of clear criteria for keeping the OCM open during stage 2. In this context we consider a situation where storage stocks are falling close to monitor levels to be a particular type of supply / demand situation which the market, provided with sufficient timely information, should be able to address without intervention. Clearly when the market can no longer respond to the situation the market is ‘broken’ and*

should be suspended by calling stage 2 immediately with command and control of storage and entry flows.”

CIA responded that, *“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.”*

CSL expressed concern that, *“this modification gives Transco additional command and control abilities which could be wielded whilst the market is still in operation. The proposer has not explained or disclosed how this power will interact with other mechanisms with respect to the requirement for Transco to act in an appropriate and cost efficient manner within the market. The lack of clarity of how Transco will act in such a situation prevents users from making appropriate preparations to deal with the situation commercially.”*

CSL believed that, *“the incentive is perverse and is more likely to cause an emergency to happen (as earlier explained). CSL agrees that some Users will have limited scope to avert an emergency because they will be unable to make significant difference to net storage stocks.”*

CSL concluded that, *“Storage Users buy their product for commercial reasons. Other Shippers elect not to book storage, and meet their flexibility requirements through other measures such as flexible contracts, interruption, options and Interconnector capacity. The parallel use of storage facilities for both commercial and security of supply purposes creates a conflict of interests. The decision to withdraw storage gas must remain the commercial decision of the storage User, and not be subject to the control of the transporter until the commercial market has failed and been suspended.”*

EDFT stated *“Purchase of storage is a commercial decision, no different to buying offshore swing gas and buying gas from traded markets. To remove control of storage, to another party, who has no commercial right to it goes against market principles. In the event that the market is short of gas, the prices will reflect this, requiring the withdrawal of storage gas. To impose restrictions, based on arbitrary measures i.e. storage monitors is unacceptable. The imposition of this restriction is a far worse situation than the continuation of Top-Up which at least targeted the costs of maintaining system security.”*

TGP considered that *“Efficient and secure operation of the NTS is best delivered through providing the necessary conditions that facilitate robust operation of the wholesale market. However the use of command and control procedures alongside market mechanisms, we believe, creates significant potential for unintended consequences and perverse incentives that may ultimately prove destabilising to effective market operation.”*

SGD stated that *“During the extensive discussions which have taken place over the past years regarding operations during a NGSE, an established principle has been that market operations and a command-and-control regime can only be operated separately. The proposal that Transco NTS (or any other GT) could on instruction of the NEC direct relevant storage operators during Stage 1 means that the NEC will be directly interfering in*

the market. If the NEC considers that the market has failed to the extent that such direction is required, the only responsible step to take would be to go to Stage 2 where it can make such directions. The purpose of the Stage 1, potential emergency, is to allow the market to resolve the situation without interference. We consider that these proposals result in significant changes to the emergency arrangements and are unclear as to the reasons for this.”

SSE disagreed “with the concept that the NEC should be able 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 GS (M) R Safety Monitor Breach. How can it be appropriate for the NEC to exercise “command and control” over gas in storage at Stage 1 when Transco NTS’s use of the market has not been suspended?

We are concerned that, if implemented, a consequence of the proposal, by preventing the withdrawal of gas from storage, could in fact lead to the automatic declaration of a Stage 2 emergency”

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

TNTS believed that “the Proposal will improve the security of supply by clarifying the roles, responsibilities, communication paths and processes for the management and resolution of a potential or actual GSMR Safety Monitor breach. It achieves this by aligning the UNC to the NEC Safety Case through the introduction of a new type of Network Gas Supply Emergency namely a Network Gas Supply Emergency Safety Monitor Emergency and clarifying the roles of Storage Operators, Transco NTS and other transporters during such emergencies.

By enabling Transco NTS to request Storage Operators to turn down their deliveries to the Total System, the Proposal will facilitate Transco NTS in complying with requests received by it from the NEC and thereby the prevention of a Safety Monitor breach and as a result securing supplies of gas to Non-Daily Metered (NDM) (including domestic consumers) and Priority Loads.”

CIA believed that, “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.”

Star considered that, “Allowing the constraining of physical storage withdrawals before the market has been suspended is likely to have several outcomes that are extremely negative for long term security of supply”.

CSL believed that, “this Safety Case change and modification is likely to reduce security of supply through unintended new short term incentives and discrimination against new storage build.”

EON stated that disagreed with the proposer’s view that, “gas associated with the protection of domestic or priority loads would be better conserved as a result of implementation. Rather, we would suggest that implementation would reduce the ability for shipper suppliers to maintain supply to domestic or

priority loads as they would be prevented from taking gas out of store to meet that demand.”

EW stated that although it was "in favour of maintaining system security it is important that particular Users are not unfairly burdened with the costs of meeting this objective. The approach should be to share the costs fairly across Users, to avoid discrimination and skewed market signals”

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.”

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 and communication paths for the management of storage flows during a Potential or actual Network Gas Supply Emergency Safety Monitor Emergency to secure remaining storage stocks to meet Priority Load demand and other Protected By Monitor consumers connected to the Transporters’ Systems.”

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 has addressed this issue in section 8.

At the Transmission Workstream, 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.

In its response, TNTS provided the following amendment to these statements:

“Transco NTS have previously stated that any actual breach of a Storage Monitor would in its opinion result in a Stage 2 Network Gas Supply Emergency being immediately declared. On further consideration and following discussion with the NEC Transco NTS now believe that this may not always be the case. The NEC have confirmed to Transco NTS that it will always seek to protect the Storage Monitors and prevent a breach. However should a breach occur then, Transco NTS understands that the NEC would coordinate emergency actions to protect the monitor level and will escalate to a stage 2 NGSE when stage 1 actions are no longer able effectively manage the situation.”

b) development and capital cost and operating cost implications:

The Proposer stated that “No implications have been identified”

CSL stated: *“When Storage withdrawals are constrained then the system will become shorter and cause the within day price to increase. This will lead to higher balancing costs.”* CSL believed that, *“Localised shortfalls could occur leading to additional compression and/or locational actions causing Transco additional costs.”*

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 it did 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.

CSL expressed the concern that, *“this change and modification gives Transco command and control powers, which lie outside it’s incentives to manage the system economically and efficiently, for circumstances where interruptible interruption and/or other mechanisms may be more appropriate to manage the situation commercially.”*

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.

CSL believed that, *“the change to the Safety Case and this proposal will reduce Transco’s risk of receiving adverse publicity and it’s costs of the consequences of declaring a full Gas Emergency. We do not believe these cost reductions are sufficient to justify the proposal because of the additional balancing risk caused to Users.”*

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 had not "identified any impact on the UK Link System or any other NTS IS systems."

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

Within its Proposal, the Proposer stated that it did not "envisage any such consequences."

The Draft Modification Report, reflecting discussions at the Transmission Workstream meeting, invited responses to the following questions listed (a) to (d) below.

- (a) *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?*

TNTS stated that: *“The affect of this Proposal is to ensure that the UNC is aligned to the NEC Safety Case and its duties under the GS(M)R. It would not therefore have, in itself, any effect on the gas in storage. Should the circumstances described in the Proposal occur (i.e. the declaration of a Potential or actual Network Gas Supply Emergency Safety Monitor Emergency), the NEC would request GSMR duty holders to protect the gas held in storage and ensure that it is made available solely to support the continued provision of supplies to Protected by Monitor loads.”*

EDFT stated *“This is possible if a particularly large storage site depletes and triggers the monitor. This will mean other sites categorised in the same class of facility will be unable to access gas in store. Independently, smaller sites will not affect the monitor.”*

- (b) *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?*

TNTS stated that it did not *“believe that this Proposal will lead to perverse incentives or to an increase in the cost of gas on the market since the incentive and costs for the provision of sufficient supplies to meet the 1 in 50 security standard are not changed by this Proposal. This Proposal merely seeks to clarify the actions to be taken in the event that normal operations and or incentives prove to be inadequate or are in imminent danger of failing.”*

SSE stated *“The effect of the proposal is that the value of storage capacity and gas in store is seriously eroded for those parties that have made provision to meet their winter supply/demand obligations by their use of Storage Facilities. In the event of a potential or actual Safety Monitor breach such gas is then “stranded” for those Users, who will be out of balance through no fault of their own. They then face exposure to the market as a distressed buyer of gas and could end up being unfairly penalised via high prices and/or volatile cashout exposure. This circumstance was not envisaged at the time top-up was removed. We have concerns that this will have an adverse effect on parties’ operational decision-making during the winter period.”*

EDFT stated *“Yes. The value of peak gas will be increased as Users factor in the risk of being unable to withdraw gas., Users are likely to withdraw gas prematurely which will further reduce the availability of supplies on high demand days.”*

CSL stated, *“There can be no doubt that constraint of storage withdrawals will lead to storage users becoming short of gas and exposed to greater balancing costs. The extent of this exposure becomes higher if the monitor level for that facility becomes higher. This will lead to increased risk for*

Storage users and ultimately increased pricing for Winter storage gas supply or the limited alternative sources of swing.”

CSL stated that, *“It is not reasonable, rational or fair that the costs of maintaining a reserve of gas for domestic and priority customers is levied solely on storage customers.”*

Star considered that, *“Top up was deemed not to be the answer, partly due to Transco’s exposure. It appears that Transco are just attempting to move that exposure on to a different class of User. However, in this they appear to be ignoring the long term implications on security of supply and the (perverse from a security of supply perspective) commercial incentives it seems to provide to storage users.”*

- (c) *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.*

TNTS referred to its response to the previous questions and stated that *“this Proposal does not change the fundamentals of having sufficient supplies to meet the Demands of Consumers in a 1 in 50 winter. As such this Proposal does not increase the requirement for such demand side response.”*

EDFT stated *“It is quite likely that peak day supplies will be limited increasing the need for demand side management. Such an increase might not be popular with customers and, for certain Supply Points, might not even be possible.”*

CSL was, *“unable to comment on the availability of interruptible gas contracts however we believe these changes will cause interruption to be more likely.”*

- (d) *Would implementation undermine the current contract value of storage as some Transmission Workstream members believe?*

TNTS did not *“believe that the value of storage facilities would be materially affected by implementation of this Proposal for the reasons set out in section 8 of this response. The NEC has a responsibility under the GSMR to manage actual or potential Network Gas Supply Emergency Safety Monitor Emergencies. It completes this role through requests to duty holders, including Storage Operators, to control their flows on to or off of the Total System. The implementation of this Proposal seeks to align the UNC with the NEC Safety Case and clarify roles, responsibilities and communication paths during a potential or actual Network Gas Supply Emergency Safety Monitor Emergency.”*

In addition to the above questions raised in the DMR, it has been suggested that the Proposal increases the exposure of Storage Users to cashout prices since such storage curtailment actions will be undertaken whilst the OCM is still operating. Transco NTS notes that the timing of any market suspension is a matter unaffected by the Proposal but this issue could be discussed during the review of Section Q which Transco NTS intends to bring forward in the near future.”

EDFT stated *“Without doubt, it would be expected at the time of purchase that all units of gas could be freely flowed into and out of the facility at the request of the User, subject to contractual and operational constraints. The imposition of new rules which will potentially limit the utilisation of storage gas and capacity will undermine holdings.”*

TGP considered that *“this proposal appears to increase the commercial disparity between gas in storage and other forms of gas entering Transco’s NTS system. As such it may be perceived as undermining the value of storage as an appropriate balancing tool at times of system peak and thus adversely affect the economics of investment in storage. Hence a debatable short term increase in security of supply may have a detrimental impact on longer term security.”*

WEL stated *“The value of storage projects would clearly be adversely affected and this may lead to less new capacity being made available to the market over the long term;”*

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

The Draft Modification Report reflected the following discussions at the Transmission Workstream:

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.

TNTS, in its response, considered that *“the implementation of the Proposal will not have a material impact on the value of storage assets. Transco NTS considers that investment decisions are made primarily upon the likely normal operation of a facility, Network Gas Supply Emergencies are by their nature rare events and therefore the economics around such events are of a lower materiality when compared to the economics throughout the working life of a facility. Also the addition of new storage options to the market will have the effect of making a Network Gas Supply Emergency Safety Monitor Emergency less likely.*

Transco NTS acknowledge that should the NEC request it to ask the relevant Storage Operators to preserve relevant storage stock levels, Users may use other mechanisms in order to balance their portfolios. This may include utilising their interruptible contracts with consumers. It should be noted however that such interruption would be helping to reduce the level of emergency interruption required. The Proposal also ensures that gas required

for the protection of supplies to domestic, NDM and Priority Loads is better conserved as a result of implementation.

As stated previously Transco NTS considers that this Proposal seeks to bring the UNC into line with the NEC's role described within its Safety Case and duties under the GS(M)R, as these duties have not changed, the contracts between Storage Operators and their Customers are likely to already include such provisions to ensure that they are aligned with these duties. Furthermore the fact that this Modification Proposal may be implemented during a Storage Year is immaterial, as the Proposal does not alter the GS(M)R regime that was prevalent at the start of the Storage Year. However, in the event that third party storage contracts, outside of the UNC, require any amendment as a result of the implementation of this Proposal, then Transco NTS would expect such contracts to contain clauses that facilitate amendments made necessary as a result of UNC modifications and would therefore anticipate that such contract amendments can be achieved within the timescales put forward in the Proposal.

SGD stated that "large firm industrial users will have increased likelihood of being interrupted. Any increased costs will pass to all consumers, including domestic consumers."

GP believed that, "Ofgem has a duty to ensure all reasonable demands for gas are met, they should also be concerned that the end users may see increased interruption. Shippers with storage positions may also use interruption as a means to balance their portfolio. As these tools remain open to them after a storage monitor breach, and gas prices are likely to be climbing, it is highly likely they will interrupt as many of their customers as they can."

TGP considered that "The required transporter emergency interruption volumes and hence the probability of interruption during stage 1 would increase were this proposal to be implemented."

EW stated that "On the demand side, it is evident that as storage supplies maybe restricted during periods of high demand, or where the supply/demand balance is tight, then transporters are likely to need additional volumes of load shedding e.g. additional interruption. energywatch is concerned that the effect of a misdirected modification proposal would be to look to consumers to balance the system. This is particularly pertinent at the current time, as it is expected that by 2007 the transporters will introduce new interruptible contracts which, in theory, will be more market orientated than the current price administered arrangements. It would appear to be extremely untimely to expect transporters, Users and customers to enter into contracts when the expectation is that the contractual environment will change in the next two years."

CSL did not agree with Transco's suggestion that, "priority loads would be better conserved after implementation. There may be some short term (within emergency) merit in the changes which have not been presented in the modification report but we believe that the medium (winter) and longer term (investment) safety of the system will be damaged."

SGN asserted that, "It has been argued that this proposal will afford better protection to domestic customers and priority loads. However SGN believes that it could be argued that by sterilising gas in storage this is likely to create additional supply / demand problems and system management problems. We

believe it could actually increase the likelihood that other categories of customer will be interrupted more frequently or for longer periods of time.”

SGN stated that it needed, “to understand the extent to which the protection of gas in storage and domestic and priority customers is to the detriment of other categories of customer and Users and the extent to which proposal will make it more difficult for a Transporter to manage their system.”

CIA suggested that, “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.”

CIA believed 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.”

SSE stated “Implementation would adversely affect the economics of investment in storage as storage operators would have to reconsider their commercial terms to take account of circumstances over which they would have no control. This could affect the viability of existing and new projects.”

SSE noted “that no time has been allowed for the renegotiation of Storage Contracts to accommodate these new arrangements. Parties will have entered into storage agreements earlier in the year with no knowledge of the revisions to the Safety Case that were approved in March. Such information would undoubtedly have influenced parties’ commercial decisions to purchase storage compared with other flexibility products.”

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.

CSL considered that, “The modification fails to address any form of compensation for constrained storage Users, this will create conflict between the obligations under the Safety Case procedures and the commercial arrangements of the UNC.”

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

Advantages

The Proposer stated that:

- “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.

CSL and SSE did not believe that, *“this modification will provide any more clarity than the Safety Case which has already been issued to Users.”*

SGD stated that *“In relation to the GSMR monitor, clarity will be undermined. Given the other extensive changes being proposed by Transco NTS in relation to emergency arrangements, notably through UNC0021 and UNC0042, if implemented this will only introduce confusion regarding the emergency arrangements.”*

CSL and SSE did not believe that, *“this modification (and the new safety case change) will protect domestic or priority loads to any more extent than previous arrangements.”*

CSL did not believe that, *“this modification will provide any improvements to market information.”*

CSL agreed that, *“market incentives will be sharpened but believes that the sharpened incentives would be contra to the intentions of the modification and the relevant objectives.”*

SSE and SGD did not believe that the Proposal *“will conserve gas associated with the protection of domestic or priority loads”* SGD state *“At best, this proposal will have no impact.”*

SSE did not believe that *“it will lead to improvements in market information or sharpen incentives”*

SGD stated that, *“For the aspects relating to the DN Sale only, this will ensure that processes under the new arrangements are clarified.”*

SGD stated that, *“for Transco NTS only, the proposal will allow it to reduce its exposure to adverse publicity in the event of a NGSE is called. It could use these changes to claim - incorrectly - that it has done all that it could do to avoid such an emergency.”*

Disadvantages

- Some Transmission 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 Transmission 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.

CSL believed that, *“within the workstream referred to only Transco believed that implementation would offer enhanced security of supply, the modification in-accurately states that more than one member of the Workstream believed this.”*

CSL agreed that, *“implementation is likely to lead to a long term reduction in security of supply.”*

CSL agreed that, *“implementation will lead to adverse effects upon the daily balancing regime and incentives due to parallel operation of “command and control” arrangements along side an operating market.”*

CSL believed that, *“storage services contracts could be undermined and will require re-negotiation. CSL’s Rough storage contract will require re-negotiation.”*

SGD stated that, *“Necessary renegotiation of storage contracts will displace commercial and operational activity already underway focussed on ensuring security of supply for this winter. To the best of our recollection, only Transco NTS has expressed the view that this proposal could improve security of supply.”*

CSL believed that the proposal, *“will lead to increased balancing costs in the event of a “Potential Monitor Breach”. These costs will be born by Users rather than Transco, as stated in the modification.”*

SGD stated that, *“Adverse incentives will be introduced into the daily balancing regime, resulting in greater uncertainty likely to result in increased potential for a NGSE to be declared. Any resulting increase costs will be borne by shippers and ultimately by consumers.”*

SGD stated that, *“Both short term and long term investment in storage will be inhibited affecting long term security of supply.”*

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

EDF Energy	EDF(E)	Not in Support
Star Energy Group plc	Star	Not in Support
Scotia Gas Networks	SGN	Not in Support
British Gas Trading Ltd	BGT	Not in Support
Chemical Industries Association Ltd	CIA	Comments
Association of Electricity Producers	AEP	Not in Support
E.ON UK	E.ON	Not in Support
Merrill Lynch Global Market and Investment Banking Group	ML	Not in Support
Transco plc – Distribution	TD	Support
RWE Npower plc	RWE	Not in Support
Shell Gas Direct	SGD	Not in Support
Warwick Energy Limited	WEL	Not in Support
Total Gas and Power Ltd	TGP	Not in Support
EDF Trading Ltd	EDF(T)	Not in Support

Transco plc – NTS	TNTS	Support
Gazprom Marketing and Trading	GP	Not in Support
Centrica Storage Ltd	CSL	Not in Support
Scottish and Southern Energy plc	SSE	Not in Support
Energywatch	EW	Not in Support

Sixteen respondents (EDF(E), Star, SGN, BGT, AEP, E.ON, ML, WEL, RWE, SGD, TGP, EDF(T), GP, CSL, EW and SSE) did not support the Proposal.

One respondent (CIA) provided comments.

Two respondents (TD and TNTS) expressed support for the Proposal.

TNTS offered the following clarification to the Proposal:

“Background to this Proposal – Prior to the removal of Top-Up the NEC had the ability to request co-operation from the Storage Operators under the auspices of the Gas Safety (Management) Regulations (1996) in relation to flows from their facilities. Transco NTS could also request Storage Operators to turn up deliveries from Storage sites under UNC Section Q and could arrange for turning down deliveries through the Counter Nominations process. Following the introduction of Network Code Modification 0710 (Removal of Top-Up Arrangements) the Counter Nomination process has been removed. As a result Transco NTS is no longer able to arrange for Storage Operators to reduce their deliveries. However, the NEC’s ability under GS(M)R remains unchanged.

Transco NTS understands that, following the submission of the NEC Safety Case, to establish separate Distribution Networks, the NEC was asked to provide further clarity in regard to the methodology it would adopt to communicate and request the necessary control of flows to and from storage facilities in order to protect the Safety Monitors. In response to this request the NEC Safety Case submission was revised to add further clarity as to its existing GS(M)R duties and the actions it would take to protect supplies during such a defined emergency or potential emergency.

Fundamentally the implementation of this Modification Proposal will not materially alter the commercial position of any industry participant since the duties and actions of the NEC have not changed but rather have been specifically clarified through the introduction of a defined “sub-set” emergency. The “new” emergency position “Network Gas Supply Emergency Safety Monitor Emergency”, described within the revised NEC Safety Case, is effectively a subset of the existing Network Gas Supply Emergency Gas Deficit Emergency.

Transco NTS believes that to avoid unnecessarily complex communication paths it is preferable for the NEC to instruct industry parties via the Primary Transporter. Modification Proposal 0035 seeks to put in place this single communications path between the NEC and various industry parties. This Modification’s prime aim is to establish this clear communication path.

For clarity Transco NTS described two possible scenarios, at the August Transmission Workstream, where a Potential Network Gas Supply Emergency Safety Monitor Emergency would be declared;

- *In the first, on the day prior to the Gas Day in question (D-1) User Nominations indicated to Transco NTS that a Storage Monitor would be breached during D if the Nominations were delivered upon by the Storage Operator. In this circumstance Transco NTS would seek to inform Users of the situation using the Active Notification System (ANS) and invite Users to renominate. If this, and all other available non emergency action, fails to affect the relevant User Nominations then a Potential (Stage 1) Network Gas Supply Emergency would be declared at 06.00 on the Gas Day (D).*
- *In the second scenario, nominations within the Gas Day indicate to Transco NTS that a Storage Monitor would be breached before the end of the Gas Day if the Storage Operator delivered on the Nominations. Here, where time permits, a similar process of ANS warnings and other non emergency actions would be followed prior to any declaration of a Potential (Stage 1) Network Gas Supply Emergency.*

SME Note:

For clarification the Subject Matter Expert (SME) suggested the following should be noted:

- Modification Proposal 0035 was raised as a consequence of the revised Network Emergency Co-ordinator Safety Case changes.
- The role of the Network Emergency Co-ordinator (NEC) is not under the jurisdiction or governance of Transco NTS. In the NEC Safety Case, Section 1 defines the NEC roles and responsibilities under the provision of the Safety Case, as the sole person set-up to coordinate a Network Gas Supply Emergency on behalf of the industry. As such, this person should not be referred to as "Transco's NEC".

UNC Alignment with the Safety Case

TD believed that, *“the amendments to the UNC are required to align the UNC with the NEC's Safety Case, in light of the recent introduction of a potential or actual GSMR Safety Monitor Breach as a trigger for an emergency. Since these are changes to the UNC to reflect changes to a Safety Case, the changes are appropriate to advise UNC parties of the commercial effects of decisions that may be taken by the NEC in the event of an emergency.”*

TD stated that, *“On the subject of the wider effect of implementation, Transco – Distribution does not believe that this consultation should be used as the vehicle to discuss all the complexities surrounding shippers' commercial decisions to acquire and use peak gas and the pros and cons of NEC's right to curtail its use. It is Transco – Distribution assumption, which accords with Transco – Transmission's assertion that this proposal is about adding clarity to the UNC by aligning the relevant documents. Clearly, there are interactions between the introduction of new NEC powers on the commercial decisions made by shippers regarding the use of stored gas, but these exist irrespective of implementation: implementation is solely about introducing contractual clarity into the UNC. If there are concerns regarding the effect of these arrangements on balancing incentives, then they should be raised as a topic at the Workstream and debated in the context of stable, aligned regulatory and contractual documents.”*

RWE recognised that *“Whilst we recognise that changes have already been made to Transco’s Safety Case which now allow the NEC to constrain storage withdrawals during a potential NGSE (Stage 1) we do not agree with this change. Nevertheless as the NECs actions are given effect under powers granted under the Gas Act, this will take precedence over any conflicting wording that may be contained in the UNC.”*

RWE's opinion was that *“the current UNC drafting does not conflict with the Safety Case change or disoblige Transco and/or Users from acting on Safety Case instructions. The modification proposal is simply seeking to expand on a particular aspect of the Safety Case but is not aligning the UNC with this as there is currently no conflict between the two.”*

CSL pointed out that, *“the physical actions described by the safety case are implemented using powers granted by the Gas Act. Instructions issued by the NEC must be adhered to regardless of the contents of the Network Code. This modification therefore does not change that actions, which are taken in an emergency and is not needed for the safe operation of the system.”*

CIA stated that, *“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.”*

EDFT noted that *“the justification for the implementation of the proposal is to bring the UNC in line with Transco NTS’ Safety Case. It should be recognised that unlike the Safety Case the UNC is a commercial contract which can be negotiated and modified by all Users. To impose change on a commercial contract due to bilateral changes made to the Safety Case is not a reasonable justification.”*

Safety Case Change process

TGP recognised that *“Transco has no explicit obligation to consult upon changes to their Safety Case, it is nevertheless disappointing that no such consultation occurred. Such a consultation we believe would have facilitated transparency and enabled the industry the opportunity to raise important concerns regarding the wider commercial implications of Transco’s revisions. We fully recognize that our comments in response to this UNC proposal will not affect the physical actions available to the NEC during Stage 1, however, we consider that as a matter of principle that retrospective legitimacy should not be conferred upon these safety case monitor revisions via modification of the UNC.”*

Twelve respondents (GP, Star, SGN, BGT, AEP, EON, CSL, SSE, CIA, RWE, SGD and EDF) agreed with AEP's view that, *“given the complexity of industry contracts and structures we do not believe that in the absence of full industry consultation all relevant issues and consequences were adequately considered.”*

BGT noted that, *“the Safety Case has been a particularly opaque process to date and it is only relatively recently that Users have been afforded any visibility of the process at all.”*

SGD was surprised that *“significant changes to the NEC Safety Case were proposed to the HSE which have a commercial impact with no consultation nor communication with the industry. We do not consider it appropriate for the UNC to be changed to reflect the NEC Safety Case as a matter of course and note that it is for the NEC (or any Safety Case holder) to propose changes to their Safety Case*

Safety Case Change Relating to the Removal of Top-up

AEP noted that, *“recent changes to the safety case are consequential to the removal of top-up from the Network Code in 2004, but at the time of the implementation of that proposal safety case changes were made that were considered adequate but now are no longer considered sufficient.”*

CSL considered that, *“The modification report for MOD710 (removal of Top Up) states “Transco would reiterate that the conduct of an emergency would not be changed if this proposal were implemented.” Transco have now changed the safety case and undermined the basis for consideration and acceptance of MOD710. Transco relieved itself of Top Up cost risk upon introduction of MOD710. This safety case change and proposed modification will result in those risks now being placed upon storage Users.”*

SSE considered that *“implementation of the proposal to be beneficial to security of supply. In fact we consider it to be detrimental and contradictory to the rationale for removing top-up last winter. Our understanding is that the reason for removing top-up and replacing those arrangements with safety monitors was to allow the market to respond to supply/demand fundamentals without the need for intervention by Transco NTS.”*

SGD stated *“In Transco's Proposal 0710 on removal of top up, Transco stated that 'the conduct of an emergency would not be changed if this Proposal were implemented'”*

Separate Modification Proposal

EON believed that it was, *“unfortunate that this proposal was not raised as two separate modifications. The Safety Monitor element of the proposal is clearly linked to fundamental changes to the Safety Case and the other element relates more to "tidy-up" changes, required to reflect the Network Sales and provide clarification on more general amendments. Separating the proposal into two separate modifications would better facilitate the relevant objective (f) the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code, through promoting flexibility in the decision making process.”*

SGD supported aspects of this Proposal which clarified the process post Network Sales.. SGD had expected that *“changes required to ensure the safety of the system would have been implemented at an earlier date consistent with the timescales for the DN Sale process itself. As stated at the Transmission Workstream meeting, we consider that it would have been efficacious to have raised this aspect of the proposal separately to ensure timely implementation.”* SGD suggests that *“a proposal on this aspect of the proposed changes would be highly likely to receive Panel support to be fast tracked.”*

Discriminatory Effects

Star, and EDF(E) considered that this Proposal, if implemented, may introduce introduced discrimination between User types.

Star believed that, *“Storage Users may find that they are exposed to high imbalance prices, as the days where storage withdrawals are constrained are likely to be high priced days.”* Star considered that, *“Given that storage is only one form of flexibility this is highly discriminatory against this class of User.”*

EDF(E) stated that, *“this proposal would introduce a level of discrimination against certain types of Users who procure storage or offshore swing gas as a means of satisfying their portfolio demands.”*

ML considered that, *“The modification should seek to link properly the commercial and non-commercial operation of the gas system. Creating differences between different storage and beach supplies will alter the value of different assets and could impact on long term development.”*

WEL stated *“Storage operators and users will feel discriminated against.”*

EDFT failed to understand why *“the proposal does not consider the introduction of a compensation scheme, recognising that Users have purchased gas and storage capacity to support their portfolios. It appears to be inappropriate and probably discriminatory that Users’ gas supplies can be constrained for the benefit of the overall system without the system compensating the effected Users for the provision of this service.”*

SGD stated *“This proposal will undermine effective competition between shippers as it will provide discriminatory incentives between those who have booked storage and those who have not, and could have discriminatory effects on shippers based on their market position (ie domestic supplier, I&C supplier, trader, etc).”*

Legal Clarifications

Detailed comments on the legal text itself have been submitted for legal clarification.

The Proposal intends to separately define a potential and or actual GSMR Monitor Breach as a type of Network Gas Supply Emergency (NGSE). SSE, EON, AEP, and CIA requested further clarity in relation to the use of “imminent” and “potential” within Section Q 1.2.3 (d) of the legal drafting.

Legal Clarification: “The change is simply a formatting change. At present, a "potential or actual breach of a Safety Monitor" may lead to a Network Gas Supply Emergency, albeit a Network Gas Supply Emergency Gas Deficit Emergency. The change to UNC is simply to create a separate (not a new) type of Network Gas Supply Emergency.”

Due to the comments received the legal text has been amended to replace "imminent" in the proposed Section Q1.2.3(d) with "potential", as this reflects the current UNC wording and is also consistent with the NEC Safety Case.

SSE sought clarification on the following, *“the Proposal is that “for clarity trades completed on the OCM before the OCM market has been suspended will be included within the relevant shipper’s imbalance calculation”. We do not*

see how this clarity is given as we see no reference in the legal text to this situation.”

Legal Clarification: “This is covered by the changes to Section Q4.2.2, as the definition of "Daily Imbalance" includes OCM trades.”

SSE sought clarification on the following, “3.2.2 states that in the event of a Network Gas Supply Emergency Safety Monitor Emergency that application of Section D will be suspended. This is at odds with our understanding of the proposal itself and the changes to the NEC Safety Case which are the rationale for this proposal. Is it the proposer’s intention that in the event of an imminent breach, the application of Section D would be suspended? If this is the case, then we are in to Stage 2 of an emergency. Whilst this would address many of our fundamental concerns with the proposal it would then seem to place the UNC in conflict with the NEC Safety Case.”

Legal Clarification: “In the event that a Stage 2 Network Gas Supply Emergency Safety Monitor Emergency is declared by the NEC, then Section D (and certain other parts of the UNC) would be suspended. It is for the NEC to determine whether the imminent of potential breach in question is sufficient to merit the declaration of a Stage 2 emergency. Again, the change is simply a formatting change. At present, a "potential or actual breach of a Safety Monitor" may lead to a form of Network Gas Supply Emergency Gas Deficit Emergency, which means that currently Section D (and certain other parts of the UNC) would be suspended in the event of a Stage 2 emergency which arose as a result of a potential or actual breach of a Safety Monitor. The change to UNC is simply to create a separate (not a new) type of Network Gas Supply Emergency.”

Please refer to Section 4 where TNS provided an amendment to its original statement.

SSE stated, “*the effect of the legal drafting proposed to Section Z is that it will change the Transco LNG storage terms and conditions. This is not mentioned anywhere in the proposal.*”

Legal Clarification: “This is simply a consequential change to ensure that UNC is consistent.”

SSE stated, “*There are a number of fundamental discrepancies between the legal text and the proposal itself which we believe need to be clarified in the draft Final Modification Report. We consider it will be necessary for the legal text to be subject to further consultation. In the event that urgent proposal 0044 is implemented, this text may no longer be valid and therefore further consultation will be required.*”

Legal Clarification: “In the event that Mod 0044 is implemented, then any changes required to the legal text for this Modification would be dealt with by the Consent To Modify process.”

SSE sought legal clarification on the following, “3.3.2 (a) states that Users must comply with all instructions by “Transco NTS”. As gas is being delivered to the Total System, the instructions must be given by the relevant Transporter.”

Legal Clarification: “It is only Transco NTS that has such rights and obligations in the event of a Network Gas Supply Emergency. The wording in

the legal text is consistent with UNC as currently drafted (see, for example, Section Q3.3.2 and 3.3.3).”

SSE commented that “3.3.2 (b) refers to a “Potential Gas Supply Emergency Safety Monitor Emergency” but this is not defined.”

Legal Clarification: “The use of "Potential Network Gas Supply Emergency" is defined in Section Q1.2.6(b). it can be used in conjunction with more specific types of Network Gas Supply Emergency. However, to avoid any doubt, legal would suggest that the legal text include an amendment to Section Q1.2.6(b) such that the following is added at the end: "and any reference to a Potential Network Gas Supply Emergency Gas deficit Emergency, Potential Network Gas Supply Emergency Safety Monitor Emergency or Potential Network Gas Supply Emergency Critical Transportation Constraint Emergency shall be construed accordingly".

SSE noted that, “4.2.1 emergency cashout will apply in the event of an “imminent” Safety Monitor breach.”

Legal Clarification: “the change is simply a formatting change. At present, a "potential or actual breach of a Safety Monitor" may lead to a form of Network Gas Supply Emergency Gas Deficit Emergency, which means that currently Section D (and certain other parts of the UNC) would be suspended in the event of a Stage 2 emergency which arose as a result of a potential or actual breach of a Safety Monitor. The change to UNC is simply to create a separate (not a new) type of Network Gas Supply Emergency.”

SSE suggested that in 4.2.2(a) “there is a missing “who” after User on line 1”

Legal Clarification: “this was an error that occurred when the legal text was uploaded into GTIS and has been corrected.”

EON noted that it remained, “particularly concerned with the amount of National Grid discretion in defining an "imminent" breach of a safety monitor. We were given confidence in the Transmission Workstream, held on 4th August that this would be clarified in the legal text.”

Legal Clarification: “It is the NEC (and not Transco NTS) that determines whether an emergency should be declared and then when the various stages of an emergency should be declared. There are existing provisions in Section Q5.2.7 and 5.2.8 that provide for communications with Users in the event of a potential breach of the Safety Monitor.”

AEP suggested additional clarity was needed to define more precisely timescales for imminent, potential or actual breaches of the safety monitor.

Legal Clarification: as already noted, “the legal text be amended to replace "imminent" in the proposed Section Q1.2.3(d) with "potential", as this reflects the current UNC wording and is also consistent with the NEC Safety Case. It is for the NEC to determine whether the circumstances in question merit the declaration of an emergency. Therefore, it would not be possible to amend UNC to restrict when the NEC declares a Stage 1 emergency (as the NEC is not a party to the UNC).”

Summary of Legal Text Changes:

The following legal text changes have arose as a result of the comments received, the two changes do not alter the intent of the Proposal:

- Given the confusion over "imminent" and "potential", and to maintain the current UNC draft and consistency with the NEC Safety Case, the proposed wording of Section Q1.2.3(d) has been amended by replacing "imminent" with "potential"; and
- To address concerns over the use of "Potential", Section Q1.2.6(b) has been amended such that the following is added at the end: "and any reference to a Potential Network Gas Supply Emergency Gas deficit Emergency, Potential Network Gas Supply Emergency Safety Monitor Emergency or Potential Network Gas Supply Emergency Critical Transportation Constraint Emergency shall be construed accordingly".

SME Note:

The following additional areas have been raised within the responses received for the Modification Proposal

- Setting of monitor levels,
- Compensation,
- Contracts; and
- Information provision.

Without commenting on their importance to the resopndee, the SME considers them, for the purpose of this Proposal, to be out of scope, as the Proposal does not seek to change the status quo in these respects.

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

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

CSL believed that, *“Alignment of the UNC with the Safety Case is not a requirement of the Gas Act as the modification states nor is it a requirement of the GS(M)R 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.

CSL requested that, *“sufficient time be allowed for changes to our Storage Services Contract to be negotiated, approved by Ofgem and implemented before any changes to the UNC are implemented.”*

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

At the Modification Panel meeting held on 20 October 2005, of the 9 Voting Members present, capable of casting 10 votes, 4 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel did not recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

SECTION Q - EMERGENCIES

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 a potential or actual breach of a Safety Monitor; and

Amend paragraph 1.2.6 to read as follows:

1.2.6 in this Section Q:

- (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;
- (b) a **"Potential Network Gas Supply Emergency"** is a potential network gas supply emergency as described in the Network Gas Supply Emergency Procedures, namely a case where the NEC has initiated Stage 1 of the Network Gas Supply Emergency Procedure and is for the time being of the opinion that a Network Gas Supply Emergency can be averted by Emergency Steps which may be taken in Stage 1, and any reference to a Potential Network Gas Supply Emergency Gas Deficit Emergency, Potential Network Gas Supply Emergency Safety Monitor Emergency or Potential Network Gas Supply Emergency Critical Transportation Constraint Emergency shall be construed accordingly;

- (c) unless expressly otherwise provided, references to a Gas Supply Emergency or a Network Gas Supply Emergency do not include a Potential Network Gas Supply Emergency.

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)

UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

SECTION Z - TRANSCO LNG STORAGE FACILITIES

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 disappplied 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, Joint Office of Gas Transporters

Signature:

Date :