

Transco NTS Response to UNC Modification Proposal 0035
“Revisions to Section Q to Facilitate the Revised NEC Safety Case”

Transco NTS’s Position

Transco NTS supports implementation of this Modification Proposal

Below is Transco NTS’s detailed response to the Modification Proposal: -

1. The Modification 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.

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

Transco believes the Proposal furthers the relevant objectives in the following ways;

- 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.

Transco NTS does 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.

Transco NTS agrees 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).

Transco NTS does 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.

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

Transco NTS believe 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.

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

Transco NTS believe 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.

The Draft Modification Report contained a concern raised by a Storage Operator that the Modification Proposal would impact upon contracts outside of the UNC. This issue is addressed in section 8 of this Response.

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.

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

Transco NTS does not consider there to be any impacts in this area as a result of this Proposal.

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

Transco NTS has 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

Various questions were raised in the DMR;

Would implementation of this Proposal lead to additional quantities of contracted gas in storage being unavailable for use by the contracting party?

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.

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?

Transco NTS do 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.

Would implementation increase the requirement for interruptible contracts as identified by the Transmission Workstream?

As detailed in the paragraph above, 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.

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

Transco NTS does 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.

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

Transco NTS considers 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.