

## **Representation For. 0035**

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

**Date of Communication:** 14/09/2005  
**External Contact:** Tanya Morrison (Shell Gas Direct)  
**Slant:** Against  
**Strictly Confidential:** No

### **Abstract**

Mike Berrisford  
Secretary  
Joint Office of Gas Transporters

14 September 2005

Dear Mike

UNC Modification Proposal 0035 " Revisions to Section Q to Facilitate the Revised Safety Case"

I refer to the above proposal raised by Transco NTS. It proposes a number of amendments following the review to the National Emergency Co-ordinator's (NEC) Safety Case. These changes relate to processes in a National Gas Safety Emergency (NGSE) in the event of a GSMR Monitor Breach, to clarify processes post Network Sales and to add clarity to the process.

Shell Gas Direct (SGD) does not support this modification proposal. Shell considers safety of the gas transportation system to be of paramount importance. However, we do not consider that the proposal in its entirety furthers this aim. Furthermore, we have significant concerns about the processes adopted by Transco NTS and the NEC leading up to these proposals and the commercial impact that these will have. We consider that this proposal will increase the potential for Stage 1 of a NGSE to be declared.

Clarifying the Process post Network Sales

SGD supports these aspects of the proposal. We 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.

While we recommend that this proposal is rejected, we would suggest that a proposal on this aspect of the proposed changes would be highly likely to receive Panel support to be fast tracked. Our comments below focus on other aspects of the proposal, we emphasise here the need to involve the industry in the process to amend Safety Cases particularly where there is a commercial impact and/or effect on the competitive market.

Proposals in relation to the GSMR monitor

Process adopted in relation to the changes to the NEC Safety Case

The proposer states that the purpose of this proposal is "to align the UNC with the revised NEC Safety Case". SGD is 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. We understand the Safety Case to be a "living document" and expect that it to largely reflect commercial arrangements, not the other way around. It would seem appropriate, therefore, that the NEC Safety Case is based on current UNC drafting and if, from discussions with the HSE, it appears that the UNC needs to be amended to satisfy the HSE's requirements, that these are discussed openly with the industry before any agreement regarding changes to the NEC Safety Case are made. We understand that consultation with the industry may take place when changes to the NEC Safety Case are being discussed and do not understand why this was not done for these proposals.

Going forward, we would expect Transco NTS (and the NEC) to learn from the clear failures with its current approach and instead adopt a transparent, consultative process where the changes to the UNC are considered in parallel to the changes to the Safety Case.

The Modification Proposal

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. 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". It would be helpful for Transco NTS to have provided better understanding of the background to these changes being made to the NEC Safety Case particularly as we consider that this proposal will introduce new commercial incentives which can lead to a reduction in the safety of the network.

The proposer should have provided further, detailed explanation regarding how these arrangements will work while the market is in action. We would have also welcomed detail of any other arrangements the proposer was aware of where market mechanisms and command-and-control work successfully together to ensure security of supply. We would also be interested in how the proposer considers this approach to be appropriate yet it also proposed (and Ofgem accepted) its proposal UNC0013a to remove its ability to interrupt for supply/demand purposes. Transco's proposal was based on the principle that shippers have the primary role in balancing the system and that Transco's role was restricted to its actions as residual balancer, eg through the OCM. UNC0035 is clearly inconsistent with this principle as it provides Transco NTS an additional, active role in the market outside the OCM. We note again that in Stage 1 of a NGSE the market is open and Transco NTS should continue to use it as any other commercial party would do. Shippers book storage for their own commercial purposes: it should not be for the NEC, Transco NTS or any other party to intervene in these commercial decisions except where an actual, Stage 2 emergency is called.

#### Implications for Shippers, Gas Suppliers and Consumers

This 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. This will not be in the interests of any consumers: large firm industrial users will have increased likelihood of being interrupted. Any increased costs will pass to all consumers, including domestic consumers.

#### Advantages and Disadvantages

##### Advantages:

- For the aspects relating to the DN Sale only, this will ensure that processes under the new arrangements are clarified.
- 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. As SGD has already noted, it is disappointing that Transco NTS has not been active in exploring how Transco NTS itself could encourage demand side response eg by forward contracting, through the OCM, development of a "gas NISM", improving daily information to large consumers etc. We understand that Transco NTS has only recently started to explore the last item.

##### Disadvantages

- 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.
- We cannot support the Proposer's assertion that "gas associated with the protection might be better conserved". At best, this proposal will have no impact.

- Both short term and long term investment in storage will be inhibited affecting long term security of supply.
- 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.
- 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.

## Conclusion

SGD does not support this modification proposal. We consider that it could undermine the safe operation of the system and increase the potential for a NGSE through changes to commercial incentives. As this proposal does not, and cannot, change the Gas Safety (Management) Regulations, the ability for the NEC to instruct shippers and others and their incentives to follow these instructions, remain unchanged. At best this proposal could have no impact on security of supply, but it is likely that it will not even meet this neutral test.

This proposal does not further the Relevant Objectives. 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. A proposal could be raised focussed on the changes related to the DN Sale which would further the Relevant Objectives. 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). Shell Gas Direct does support proposals which improve the security of the gas system: we do not consider that this proposal furthers this aim.

Yours sincerely

Tanya Morrison  
Regulatory Affairs Manager