

**Modification Report**  
**Revised Emergency Cash-out & Curtailment Arrangements**  
**Modification Reference Number 0044**

Version 2.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because it considers that if the modification proposal were to follow non-urgent procedures, there is a risk that, were the modification proposal to be subsequently implemented, there would be insufficient time for the market to properly consider the likely impact of the modification and react accordingly, prior to this coming winter. Ofgem also considers that if this modification proposal is not treated as urgent, this could have an impact on security of supply for the winter ahead.

**Procedures Followed:**

The procedures agreed with Ofgem for this Proposal are:

Sent to Ofgem requesting Urgency	09/08/2005
Ofgem grant Urgent status	09/08/2005
Urgent Modification Proposal issued for consultation	09/08/2005
Closeout for representations (9 business day consultation)	22/08/2005
FMR issued by Joint Office (+4 business days)	26/08/2005
Panel approve that response reflected appropriately	31/08/2005
Modification Panel Recommendation	02/09/2005
Ofgem decision expected	07/09/2005

**1. The Modification Proposal**

The Proposal was as follows:

"Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Report). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (\*) when first used. This Modification Proposal, as with all Modification Proposals, should be read in conjunction with the prevailing UNC. For the purposes of this Modification Proposal, "Gas Deficit Emergency" or "GDE" shall mean a Network Gas Supply Emergency Gas Deficit Emergency\*.

Words and phrases marked with a double asterisk (\*\*), when first used, are new UNC defined terms that are proposed in the legal text relating to this Modification Proposal.

Transco NTS raised Uniform Network Code Modification Proposal 0021 "Revision of the Emergency Cash-Out Arrangements" in June 2005. The Modification Proposal was rejected by the Authority. In the Authority's decision letter, they expressed support for the principles of the Modification Proposal but felt they were not in a position to approve the Modification Proposal due to the "serious concerns about the adequacy of the consultation

process and in particular whether all of the relevant issues and effects were set out sufficiently clearly and addressed so that respondents and the Modification Panel\* could properly consider and comment on the proposal.” In addition, the decision letter set out a number of additional elements that the Authority thought would merit further consideration in any further Modification Proposal in this area. The decision letter encouraged Transco NTS and the industry to bring forward further Proposals for this Winter given the importance of these arrangements.

This Proposal represents an alternative to Modification Proposal 0021 taking into account User concerns expressed as part of the consultation process in relation to Modification Proposal 0021 and also seeking to address issues set out in the Authority’s decision letter relating to Modification Proposal 0021.

In summary, this Modification Proposal builds upon Modification Proposal 0021 by:

- Maintaining the proposed amendment of the setting of the Emergency\* cash-out prices from the prevailing single price of the 30 day average System Average Price\* to dual prices set at the point of market suspension;
- Maintaining the introduction of a new Emergency Curtailment Quantity\*\* title trade and associated 'trade' payment but extending this to a wider population of loads than just Interruptible\* load. This Proposal now covers all System Exit Points\* except those which include NDM Supply Point Components\* or Priority Supply Points\*;
- Introducing a new disputes resolution process for the Emergency Curtailment Quantity title trade quantity;
- Clarifying the treatment of the “Over the Counter” Trade Nomination\* process during a Network Gas Supply Emergency\*;
- Including a requirement for the relevant DNO\* (in respect of DN connected load) to calculate its element of the Emergency Curtailment Quantity and pass this information to Transco NTS;
- Make information regarding each relevant Transporter’s element of the Emergency Curtailment Quantity available to Users after the Gas Day to support dispute process including information describing the basis of the methodology used to calculate each element of the Emergency Curtailment Quantity.

These additional features and clarifications are designed to address concerns raised with the content of Modification Proposal 0021. The Modification Proposal is discussed in more detail below.

This Modification Proposal seeks to:

1. **Amend the setting of the cash-out prices applicable during a Gas Supply Emergency from the prevailing single price of the 30 day average System Average Price to dual prices set at the point of market suspension pursuant to the current provisions of UNC TPD Section Q4.1.1:**
  - a. the cash-out price for Users with a negative Daily Imbalance\* will be set to the System Marginal Buy Price\* prevailing on the day the GDE commenced; and

- b. the cash-out price for Users with a positive Daily Imbalance\* will be set to the System Average Price prevailing on the day the GDE commenced.

Concerns relating to cash-out prices were raised within the Ofgem “Cash-Out Review Working Group” (CORWG), which recognised that the creation of the Safety Monitors\* and the potential for a breach of those Safety Monitors to trigger a Gas Supply Emergency had made the potential of a GDE more predictable; by giving Users time to respond and create appropriate price signals leading up to the declaration of a GDE. During CORWG discussions it was noted that the current arrangements might not appropriately incentivise Users to take all actions that could be considered prudent prior to the commencement of a Gas Supply Emergency\*.

One of the principle outcomes of CORWG discussions, to date, was the recognition that appropriate incentives were required to encourage Users to take appropriate actions through which a GDE might be avoided, or, its duration or extent reduced. As a result of the ongoing CORWG review, Transco NTS has considered the next steps that could be taken prior to the coming 2005-2006 Winter.

Any change to the cash-out price applicable during a GDE should ensure that Users do not have a financial incentive to withhold gas, i.e. the cash-out price for Users with a positive Daily Imbalance should fairly reward those providing gas to assist efficient management of the Gas Deficit Emergency, and ensure that Users have an appropriate financial incentive to offer demand-side response. Transco NTS believes that the cash-out price for Users with a negative Daily Imbalance should reflect the marginal value of demand response. This is important to provide appropriate incentives for Users to cover their short positions. A single cash-out price cannot reflect both these values and hence dual cash-out pricing may be more appropriate.

Rather than being based on the average of the System Average Prices for the previous 30 days, Transco NTS believes that the cash-out price applicable during a GDE for those Users with a negative Daily Imbalance should be set to the System Marginal Buy Price that is prevailing at the commencement of a GDE. Transco NTS believes that the setting of the cash-out price applicable during a GDE on this basis would provide the Users with signals that are likely to be more reflective of the actual market conditions immediately prior to a GDE.

Users should be encouraged to deliver and, where appropriate, provide demand-side response, in order to alleviate the extent and duration of the GDE. For example, where Users have a positive Daily Imbalance as a consequence of their actions to maximise beach deliveries or, by responding to GDE demand reduction notices, then these Users should be appropriately rewarded. Thus Transco NTS considers that the cash-out price for a User with a positive Daily Imbalance should be set at the System Average Price at the time immediately prior to the start of the GDE. Transco NTS believes that if implemented, this Modification Proposal would better align the cash-out prices applicable during a GDE to those market prices prevailing at the commencement of a GDE.

The Authority, in its decision letter, reflected concerns raised by respondents in relation to Modification Proposal 0021, which had a similar marginal price proposal to that set out above. These related, in our understanding, to the impact of small quantity trades having

the ability to set high marginal prices for a long emergency period and secondly to the read across to discussions and previous Authority statements on electricity cash-out prices.

We have not included any mechanism for a more aggregated marginal approach incorporating either averaging of a number of trades or “de minimis” cash-out prices in this Modification Proposal for the following reasons:

- The gas cash out mechanism for non-emergency periods is already based upon a marginal calculation methodology. Introducing an aggregated marginal price methodology during emergency periods only would mean that different regimes would apply for non-emergency and emergency periods. We believe that this could result in unintended consequences and note that this concurs with Ofgem’s view expressed in its decision letter on BSC Modification Proposal P135 (Marginal System Buy Price during periods of Demand Reduction) where it stated that ‘...through having two regimes in place for the calculation of Energy Imbalance Prices there is scope for perverse incentives to exist.’. The incentives and impacts of two different cash out regimes would need to be fully assessed and discussed.
- Prior to entering an emergency period, Transco NTS will accept all economic and efficient offers on the OCM. In assessing the economics and efficiencies of a particular offer, Transco NTS will consider whether the quantity of that action will have a discernible positive impact on the supply/demand position. Thus, a small quantity, high price action may well not be taken, as it would not aid in the overall supply/demand balance position. If there were a number of small quantity actions that could be taken that, in aggregate, would aid the overall Supply & Demand balance position, then Transco NTS would accept them. In these circumstances, it is Transco NTS’s view that, as the highest priced action has helped to resolve the supply/demand imbalance, it is appropriate for it to set the cash out price.
- In all circumstances, including emergency circumstances, it is essential that cash-out prices provide Users with strong incentives to balance their positions. During stages 2 and 3 of an emergency, Users will be able to enter into OTC trades and submit nominations to Transco NTS, and therefore cash-out prices at these times not only provide incentives for Users to undertake such trades in order to balance their positions, but also incentives to ensure that gas is physically delivered. This is distinct from the electricity arrangements where Gate Closure prevents market participants from trading with each other, (as the sole counterparty is the system operator) and there are alternative mechanisms and obligations in place to ensure physical delivery. As such we believe that a ‘pure marginal’ SMP Buy price is required during a GDE to ensure that no financial benefit can be derived from undertaking a trade at one price, not physically delivering, and being cashed out at a discounted price due to any aggregation at the margin.
- We note Ofgem’s view that the issues around small volumes of gas setting the cash out price are less significant than they are in electricity due to the longer balancing period. Additionally we believe that the nature (i.e. the number of actions and the timescales associated with delivery) of gas balancing actions minimise the risks of a small volume balancing action inappropriately setting the cash out price.

- From our experience of the electricity industry, cash out price proposals have resulted in significant debate and discussion as (amongst other things) there are a number of ways of calculating either de-minimis quantities or a subset of trade quantities all of which need to be assessed for their impact and incentive properties. We believe that any future proposed modification on electricity cash out prices should include consideration of this area, but do not believe that this is a pre-requisite for this gas cash out modification, for the reasons outlined above.
- We note the Authority's and industry concerns, and believe that if any market participant were to bring forward a proposal to develop an aggregated or "de minimis" marginal price then this should be considered on its own merits and would require significant development and discussion with the industry.

Therefore, we have not proposed a solution incorporating any aggregation or de-minimis limits within the cash out calculation methodology, and we believe that our proposed pricing element to this Modification Proposal better meets the relevant objectives.

### **Trading Arrangements & Clarification of "Over the Counter" Trade Nomination process operation**

If a marginal cash-out price applies to those Users that are short in a GDE then it should be possible for such Users to trade out their imbalances and hence all Trade Nominations at all stages of a Network Gas Supply Emergency will be accepted. For the avoidance of doubt, UNC TPD Section C5 will continue to apply during a GDE. This change will effectively remove the ability of Transco NTS not to take into account "OTC" trades in a GDE.

### **2. Introduction of a new Emergency Curtailment Quantity title trade and associated 'trade' payment**

The second element of this Modification Proposal is seeking to assign the quantities of gas associated with Emergency Curtailment actions undertaken by Transco NTS in a GDE (including a Potential GDE) as a Trade Nomination between Transco NTS and each User. Emergency Curtailment covers an instruction from the relevant Transporter to reduction or discontinuance of offtake of gas at any relevant System Exit Point. Relevant System Exit Points are described later in this section.

In the event of a potential or actual GDE, Emergency Curtailment would be used in an attempt to reach a system supply & demand balance i.e. removal of the deficit. This could result in a scenario where a User, which was short of gas going in to an Emergency or Potential Emergency, might have its potential daily imbalance reduced because of the demand reduction associated with Interruption or Firm load shedding by the action of the relevant Transporter calling such Emergency Curtailment. This might result in limited cost targeting of those Users that contributed towards an emergency, which might weaken the financial incentive to contract for adequate supplies and demand response. Associating a title trade with Emergency Curtailment would, to some extent, correct this lack of cost targeting.

If a trade were associated with the Emergency Curtailment Quantity, a User that has a negative Daily Imbalance prior to an emergency would be financially exposed at the System Marginal Buy Price to the full extent of its envisaged Daily Imbalance position prior to the invoking of Emergency Curtailment. A User that was in balance or had a



positive Daily Imbalance prior to an emergency would retain a similar envisaged Daily Imbalance position following the invoking of Emergency Curtailment.

For each User, the Emergency Curtailment Quantity would be calculated as the aggregate quantity of Emergency Curtailment occurring as a result of a potential or actual GDE at the relevant System Exit Points less any quantity of User commercial “interruption” at the same System Exit Points notified to the relevant Transporters\* prior to the Emergency Curtailment occurring.

For each day in an Emergency the Emergency Curtailment Quantity (ECQ) will be expressed as a Daily Quantity (kWh) for each User and will be the sum of the elements provided by each relevant Transporter.

The methodology each Transporter may use to calculate its element of the Emergency Curtailment Quantity is discussed later in this section.

### **Relevant System Exit Points**

A key issue is to which loads this Emergency Curtailment Quantity title trade applies to.

Transco NTS understands that the key issue in regard to the clarity of Modification Proposal 0021 was the term “Emergency Interruption” which was used in conjunction with the trade quantity aspect of the Modification Proposal. This term meant that the trade quantity adjustment applied solely to Interruption as an Emergency Step\* i.e. curtailment of the offtake of gas at Interruptible Supply Points\*.

The Authority in their decision letter noted that they felt Modification 0021 “arbitrarily drew a distinction between (currently defined) interruptible and firm customers in relation to the incentives that Users face regarding ex ante contracting for demand response. Ofgem considers that this aspect of the proposal is contrary to the efficient and economic operation of the pipeline system”. We have considered whether there is a different definition of the loads to which the trade quantity aspect of the Modification Proposal will apply to which might better facilitate the relevant objectives.

In response to specific concerns, this Modification Proposal contains a wider definition of Supply Points than Modification Proposal 0021. The key difference is that we propose that the trade quantity should apply to the reduction of the offtake of gas at all System Exit Points other than those which comprise NDM Supply Meter Points\* and Priority Supply Points. These excluded loads are protected by the GSMR Safety Monitor under the NEC Safety Case\* and it would be inappropriate to incentivise a demand response at such Supply Points as it would not be possible to accept or validate a market based demand response. Therefore we believe that setting the threshold excluding these loads is an appropriate one.

### **Trade and Trade Payment Arrangements**

To ensure transparency and consistency with other Eligible Balancing Actions\*, Emergency Curtailment during a GDE (including a Potential GDE) would represent a Market Balancing Action\*, only for invoicing and neutrality purposes, and thus any payment for such actions should be funded from the energy element of Balancing Neutrality\*.

For the avoidance of doubt, any amounts payable by Transco NTS to Users for the Emergency Curtailment Quantity trade shall not be included in the calculation of the System Marginal Buy Price, the System Marginal Sell Price or the System Average Price. Transco NTS will not pay Balancing Charges\*, Balancing Neutrality Charges\*, Scheduling Charges\* or Daily Imbalance Charges\* as a result of the Emergency Curtailment Quantity transactions occurring.

In addition to the Trade Nominations in respect of the Emergency Curtailment Quantity, it is also proposed that for those occurrences of Interruption in a GDE, the Users would receive payment based on the Emergency Curtailment Quantity multiplied by a price determined as the simple average of the System Average Prices for the 30 Days prior to the commencement of the GDE.

This would result in a payment from Transco NTS to each User in respect of the aggregate quantity of gas that User would have offtaken but for the Emergency Curtailment occurring during a GDE. The Emergency Curtailment Quantity would be calculated to offset the gas deficit in a GDE (including a Potential GDE) and the net Daily Imbalance\* of all Users should be equal and opposite to the aggregate imbalance of a new Transco NTS 'Emergency Curtailment Manager' account.

Each Transporter would be responsible for generating an estimate of its element of the Emergency Curtailment Quantity, by User, in relation to the Emergency Curtailment actions taken by that Transporter during a potential or actual GDE. Transco NTS will aggregate each Transporter's element of the ECQ to generate a single Emergency Curtailment Quantity for each User for the day.

#### **Shared Supply Meter Points\***

For Shared Supply Meter Points\*, the Registered Users (or agent on behalf of such Registered Users) will be required to provide a default User allocation method that applies unless Users have called User "interruption". If no default User allocation method is available the relevant Transporter default allocation will be used.

#### **Information Flow**

For the purposes of implementing this Modification Proposal, Transco NTS would need access to the Emergency Curtailment Quantity data by User, of each relevant Transporter, in its role as residual system balancer. Transco NTS as residual system balancer would be responsible for collating the component elements, supplied by each relevant Transporter including the Transco NTS element, of the Emergency Curtailment Quantity. Transco NTS will then calculate the Emergency Curtailment Quantity as the sum of the above supplied elements by User, calculate the price and initiate the Trade Nominations and corresponding payments.

As noted above, the Modification Proposal places an obligation on all relevant Users at Shared Supply Meter Points to provide the division method for the Emergency Curtailment Quantity for the relevant Transporter not more than one hour after relevant actions have been initiated.

The Modification Proposal places an obligation on all relevant Transporters to calculate the Emergency Curtailment Quantity for all relevant System Exit Points and pass the data,

aggregated by User, on to Transco NTS as soon as is reasonably practical after Emergency Curtailment\*\* has been initiated.

The Modification Proposal will also place an obligation on all relevant Transporters to pass the User specific data on to the relevant User along with the basis for the calculation as soon as is reasonably practical after the day that Emergency Curtailment has been initiated and in any case no later than D+4.

### **Calculation of the Emergency Curtailment Quantity**

A key issue to the functioning of the process will be the process by which each relevant Transporter calculates its element of the ECQ. As noted in the Authority's decision on Modification Proposal 0021, many respondents would like to see the ECQ calculation method set out in the Uniform Network Code. We would concur with the principle of such a view in that Users would need to understand the process by which the relevant Transporter would calculate its element of the ECQ, however, we would concur with Ofgem's view as set out in the Authority's decision letter that consideration of whether this should be incorporated into the UNC is a medium term issue, therefore we have not included this aspect in this Modification Proposal.

We are however keen that Users understand the processes used and hence we will be publishing our view of the processes we believe the relevant Transporter's should use alongside this Modification Proposal such that Users can consider this in their assessment of the Modification. We believe this is the optimal way forward as it would allow Users to comment on such a methodology and we will set up industry sessions to discuss the ECQ processes during the consultation process. We believe that a single methodology, comprising a number of distinct steps, covering all relevant System Exit Points could be applied by all Transporters.

Even without the formal inclusion of the ECQ methodology, we believe that this Modification Proposal better meets the relevant objectives, as it requires the relevant Transporter to provide a best estimate of its element of the ECQ. The Modification Proposal provides that information is sent to the User by each relevant Transporter to inform them how its element of the Emergency Curtailment Quantity was assessed and it includes a quantity dispute process should the User believe there was a better estimate that could have been used. We believe this is significantly better than the status quo of no quantity adjustment at all in the Emergency arrangements.

### **Further Emergency Curtailment\*\* and Restoration**

In the event of the NEC declaring a potential or actual GDE, the requirement for Emergency Steps\* to include Emergency Curtailment at a number of System Exit Points may be identified. If the Emergency Steps do not avert or reduce the probability of the GDE or the probable scale of the GDE then further Emergency Steps will be taken. In the event of further Emergency Curtailment occurring, each relevant Transporter should provide revised ECQ elements to Transco NTS. Transco NTS will then initiate further title trades to reflect any increased quantities.

Should Emergency Steps avert the probability of a GDE and the restoration of the offtake of gas at all or a number of System Exit Points is feasible without increasing the probability of a GDE then such restoration will be initiated. In the event of such restoration occurring,



revised ECQ elements should be provided to Transco NTS by each relevant Transporter. Transco NTS will then initiate further title trades to reflect restoration i.e. reduced quantities.

On any Day in which restoration of Emergency Curtailment occurs at one or more System Exit Points, then each User that has a revised Emergency Curtailment Quantity due to restoration will be required to authorise Transco NTS to make an Acquiring Trade Nomination on behalf of the User, and Transco NTS will make a corresponding Disposing Trade Nomination.

### **Impact and notification of User “interruption”**

In the event of the NEC\* declaring a GDE, Emergency Curtailment may occur at a System Exit Point that has already been commercially “interrupted” for the relevant Gas Day (or Gas Days) by a User to ensure that the System Exit Point does not restart taking gas. This process is known as ‘trumping’. Given that any revised emergency arrangements should lead to greater incentives on Users to contract for and action commercial “interruption” as well as contracting for greater supply quantities, it is the intent of this Proposal that any notified User commercial “interruption” should not count towards the Emergency Curtailment Quantity. User “interruption” must be notified to the relevant Transporter (UNC TPD Section G6.6.5) by the use of a “P70” form and aggregate User “interruption” is already calculated from this data.

As part of this Modification Proposal the process for the notification of User commercial “interruption” (UNC TPD Section G6.6.5) will be expanded to enable Users to notify the relevant Transporter of commercial “interruption” at both Interruptible and relevant Firm System Exit Points as covered by the definition of relevant System Exit Points. This will be facilitated by the introduction of an additional “P70 Firm” form for relevant Firm System Exit Points while the prevailing “P70” form will continue to be applicable for Interruptible System Exit Points. This process will apply at all stages of a Potential or actual GDE.

In order for the process to work effectively it is important that there is clarity in regard to the notification of User “interruption” at both Interruptible and relevant Firm System Exit Points. A User should notify Transco NTS of User “interruption” only if the Supply Point reduces or stops the offtake of gas under any commercial arrangement with that User. If a User offers demand reduction via a physical or locational action on the “OCM” then the initiated demand reduction should be covered by a “P70” or “P70 Firm”. If a User “interrupts” a Shared Supply Meter Point\* then it should not issue a “P70” if it intends to act as the User for that Supply Point\* under other contractual arrangements such as the purchase of gas by the end-consumer.

### **Quantity dispute process**

In the Authority’s decision letter on Modification Proposal 0021, it noted that some Users had commented that a disputes process would be helpful for the Emergency Curtailment Quantity aspect of the Modification Proposal. We have therefore included in this Modification Proposal a dispute process for the Emergency Curtailment Quantity. For this purpose and given the urgent request we have made with this Modification Proposal, we have built the Modification Proposal on the existing claims process which is in place for parties who have a positive Daily Imbalance going into an emergency. Clearly, the

disputes process is an issue which can be developed over time through further Modification Proposals in the light of experience. However we believe introducing a disputes process based on one which is already functioning under the Uniform Network Code will better facilitate the relevant objectives.

Where a User believes that its Emergency Curtailment Quantity has been incorrectly calculated, a claims process may be initiated.

- Transco NTS will, in consultation with the UNC Committee\*, appoint an appropriately qualified person as "claims reviewer" to review each claim.
- This claims reviewer will advise Transco NTS whether or not the calculated Emergency Curtailment Quantity appears to the claims reviewer to be justified and (if not) what the Emergency Curtailment Quantity (in the claims reviewer's opinion) should be.
- If the claims reviewer advises of a lower Emergency Curtailment Quantity, then the User will be required to pay Transco NTS an amount determined by multiplying the Emergency Curtailment Trade Price\*\* by the difference between the calculated Emergency Curtailment Quantity and determined Emergency Curtailment Quantity.
- If the claims reviewer advises of a higher Emergency Curtailment Quantity, then Transco NTS will be required to pay the User an amount determined by multiplying the Emergency Curtailment Trade Price\*\* by the difference between determined Emergency Curtailment Quantity and the calculated Emergency Curtailment Quantity.
- In addition, there would be a requirement to adjust the relevant User's imbalance account for the Gas Day in question.
- Either party may appeal the claims reviewer's decision to the Authority.

For the avoidance of doubt, there will be no price claims process in relation the Emergency Curtailment Quantity trade as Transco NTS believes that such a process would have a detrimental impact on the intent of this Modification Proposal in regard to the generation of incentives.

Users would be able to initiate the disputes process referred to above prior to having to pay any Balancing Charges\* that may arise as a result of the calculated Emergency Curtailment Quantity.

### **Consequences of not implementing this Modification Proposal**

- Anything other than the application of the System Marginal Buy Price and the maintaining of pre-emergency Daily Imbalances in a GDE would not fully incentivise delivery against all residual balancer Market Balancing Actions taken prior to the declaration by the NEC of a GDE.
- The prevailing cash-out arrangements might incentivise behaviour that might lead to the prolonging of an emergency.
- Potential perverse incentives for Users who are short of gas going into an emergency would remain.
- Users would have a weaker incentive to contract for demand response.

- Potential Security of Supply benefits would not be realised.

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

The Proposer stated that:

“The Modification Proposal should ensure that Users continue to be incentivised prior to, and during an emergency, to satisfy their contracted demands. Increased security of supply should lead to more efficient utilisation of the pipeline system and hence Transco NTS believes that the Modification Proposal will better facilitate relevant objective 1b); the coordinated, efficient and economical operation of the combined pipeline system.

In respect of paragraph 1.d): Transco NTS anticipates that by targeting cost during a GDE, Users will be encouraged to take appropriate actions through which a GDE might be avoided. Such actions might promote greater and more effective competition between Users and Suppliers\*, and as a result might improve security of supply.”

Relevant Objectives

SGD noted, “The proposal will undermine the efficient working of the traded market and therefore undermines effective competition between shippers and relevant suppliers. As such it does not further the Relevant Objectives of the Uniform Network Code.” GDF “believe that this proposal would degrade GT Licence standard conditions A11.1(d) ensuring effective competition between shippers by undermining competition; unnecessary risks could drive out existing shippers and act as a deterrent for new entrants to enter the market.”

EDF “believe this modification does not further Transco’s relevant objectives as it creates more risk for shippers whilst introducing greater discrimination between certain types of shippers.” EDF commented, “this modification is discriminatory as it could adversely penalise smaller shippers or shippers that rely wholly on the market for their supplies.”

TD “believes that the stated aim of the proposal, that is to ensure that shippers are incentivised to a greater extent to balance their portfolios to the maximum extent up to the point that either a Stage 1 or Stage 2 Emergency Notice is issued by the NEC, would result from implementation.” TD “believes that the relevant objectives would be furthered by ensuring that the economic efficiencies provided by the market remains in force for longer, as the likelihood of an emergency being declared by the NEC is reduced, thereby ensuring the continuation of competition between shippers in circumstances that may otherwise have resulted in an emergency.”

Transco NTS “remain of the view that implementation of MP0044 will better facilitate the Relevant Objectives and that the decision to implement should be taken as soon as reasonably practical to enable the earliest opportunity for Users to respond to the revised framework prior to the 2005/6 winter.”

SSE commented “generally much of the increase in demand for gas that arises from a ‘progressive’ GDE (as acknowledged in the Authority’s Decision Letter for Modification 021) is weather related. This will generally come from increased domestic demand, rather than from industrial or commercial end consumers yet the cost is to be born by those Users with industrial and commercial customers (who have contributed far less to the

‘progressive’ GDE). This is discriminatory and cannot be said to better facilitate the relevant objectives. Given that in the run-up and during a GDE (of a ‘progressive’ or ‘sudden’ variety) all stakeholders (Government, the Authority, Transco NTS, Transporters, Shippers etc.) should be doing everything (e.g. public messages from the JRT, TV, radio and newspaper messages etc) they can to encourage end consumers to curtail demand for gas; it is perverse that Users are to receive no credit for reductions in the demand of gas achieved by their consumers. It would seem that Transco NTS wish to remove this ‘credit’ for its own ‘benefit’ rather than the User.”

*The SME notes that the Proposal creates an incentive on the Users that can respond to such an incentive by offering demand response through Market mechanisms and does not create an incentive on those Users that cannot respond via Market mechanism i.e. the ECQ is only applicable at those System Exit Points that could offer demand response via the OCM.*

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

The Proposer stated that it:

“recognises that the prevailing emergency cash-out arrangements may have an adverse impact on the likelihood of price sensitive supplies (interconnector, LNG importation) continuing to be delivered in a potential or actual emergency.

Transco NTS believes that the prevailing emergency cash-out arrangements also generate little financial incentive to action demand response as the financial exposure created by a short position and a neutral cash-out price would be expected to be less than the costs associated with the quantity of demand response that would balance a User's portfolio.

Transco NTS believes that end-consumers would value demand response at a level significantly above 30-day average System Average Price\*. Given that the potential 1-in-50 annual quantities of demand and the expected supply level for the coming winter indicates a requirement for increased demand-side response, Transco NTS believes that there is insufficient financial incentive to meet the Supplier's licence obligation to maintain supplies in a 1:50 winter to domestic users.”

No adverse implications in respect of industry fragmentation have been identified.

#### Security of Supply

SGD noted, “Shippers’ focus in relation to security of supply is on ensuring robust emergency contact details and robust emergency interruptions procedures.” SGD commented that the Proposal, “will undermine security of supply; not enhance it and contradicts Transco NTS’s obligations to operate an efficient and safe pipe-line system.” SGD noted, “changes to how charges are allocated make no difference to the availability of sites which can be interrupted and these proposals do not reduce the likelihood of an emergency.” SGD commented “It remains the case that the industry may get through the winter without any major issues arising and/or cold snaps being dealt with well. However, if demand side response is required and works well, this will be mean that security of supply has been ensured despite, not because of, this proposal.”

STUK noted, “It is questionable that increasing the Cash-out cost to Users during an emergency will increase security of supply.”

BGT noted, “The licence obligations require Suppliers, through their Shippers, to provide for adequate cover of their demand obligations to an appropriate security standard. This is underpinned by appropriate commercial incentives. Once in the situation of a GDE, by definition some provision has failed. To simply increase the exposure of Users does not best serve the assurance of security of supply to consumers.”

Transco NTS commented, “It is the changed behaviours that Transco NTS believe implementation might encourage that will reduce the risk of emergency procedures being invoked and therefore better deliver security of supply to consumers.”

*The SME notes that, if implemented, this Proposal may introduce greater commercial incentives, than under prevailing emergency arrangements, for Users to take actions through which entering into an emergency may be avoided, or, its duration or extent be reduced. Users responding to such incentives through future contracting for greater supply levels, or establishing commercial interruption contracts, may enhance security of supply arrangements. Clearly the Proposal cannot lead to greater supply levels during the coming winter but it may incentivise continued flow of price sensitive supplies into the UK. SGD noted, “changes to how charges are allocated make no difference to the availability of sites which can be interrupted” but more sites may find it more economic to be interruptible if Users place a higher value on such ‘interruption’ as a result of any increased cash-out exposure resulting from the implementation of this Proposal.*

#### **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:

“Users should be encouraged to deliver and, where appropriate, provide demand-side response, in order to alleviate the extent and duration of the emergency. This alleviation could be considered as a beneficial implication for the operation of the Total System\*.

1. Setting of emergency cash-out prices - We do not anticipate any adverse implications in respect of the operation of the Total System.
2. Introduction of a new Emergency Curtailment Quantity trade and associated payment – We do not anticipate any adverse implications in respect of the operation of the Total System.

The price payable in respect of any Emergency Curtailment Quantity will have no impact on the order in which Market Balancing Actions are taken and Emergency Curtailment in an emergency will not be undertaken in preference to Market Balancing Actions. Once an emergency has been declared, Transco NTS will be acting under instruction of the NEC and will use all available tools, Market Balancing Actions or otherwise to manage the Potential (or actual) Network Gas Supply Emergency in accordance with licence obligations and statutory obligations.”



**b) development and capital cost and operating cost implications:**

The Proposer stated that in terms of NTS Systems:

“Transco NTS has identified minimal development and operational costs.”

Practical Implementation

Transco NTS noted, “some industry participants’ perceptions of the complexity associated with the ECQ determination process. However, Transco NTS understand that Transporters will be able to use existing systems/data to produce the required reasonable estimates of contributions to the ECQ.”

TD was “concerned about implementation. On the basis that the principal trigger for invoking these rules is a depletion of the Storage Monitor resulting in a Gas Deficit Emergency ("GDE"), in theory, this could be required early in the Winter”. Implementation on TD's part “requires some systematisation of the ECQ calculation as well as training of operational back-office staff to manage the ECQ calculation and processing of the P70 Firm notifications. Given that this activity could be required in real time with an emergency, these new arrangements would need to be thoroughly tested.” TD “is investigating what work would need to be commissioned to support the ECQ calculation. The proposal suggests that the solution lies with a modification to an existing system, Interruption Manager. On reflection this system would not provide a solution since it does not process energy quantities: it only deals with corrected volumes.” TD “believes that it would be far better to use closed-out energy values since these quantities have already had CVs factored into the offtake volumes and are known to respective shippers.” TD “is investigating a system solution that could be used to match a database of historic consumptions by site with a database of the sites ordered to stop offtaking gas by transporters.” TD “is also of the opinion the [D-1] value should have no part to play in the ECQ calculation as, generally, D-1 consumption would not be reflective of gas offtaken on D, and D-1 would not be a closed-out energy value.”

SGN “does not believe the ECQ element of the proposal could be implemented for 1st October. Previous impact assessments carried out in relation to Modification Proposal 0021 indicated there would be a system lead-time of approximately 2 months. Given the additional complexities associated with this proposal, it is likely that the lead-time would be greater.”

SGN “believe the time and resource required to produce calculations, adjustments and reports within day and at the end of each day of a gas emergency would divert essential resource from dealing with and resolving the emergency in a timely and efficient manner. This is not in the interest of security of supply and could not be considered to better facilitate the economic and efficient operation of the system.”

*The SME notes that in order to carry out Interruption or Firm load shedding under the prevailing UNC arrangements, Transporters must have an estimate of the demand reduction that might be achieved, as the requirement of such demand reduction is to reduce flow rates and forecast demand. If this were not the case then a Transporter would have no option but to curtail supply to all offtakes in the event of an emergency. Given that such an estimate of the impact of demand reduction must be generated it might be deemed by the*

*Transporter to be its reasonable estimate of demand reduction for the purposes of its ECQ Calculation methodology.*

**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:

“Additional costs will impact on the "SO Incentives" and will be recovered via the "NTS SO Commodity Charge".”

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

No such consequences have been identified.

**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**

No such consequences have been identified.

**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:

"The association of a trade for any Emergency Curtailment Quantity could be facilitated by the creation of an "Emergency Curtailment Manager" (ECM) account on UK Link. This account would be used to generate the trades on a User aggregated basis. Each User would be deemed to have completed the trade with the ECM entering the Disposing Trade Nomination\* on behalf of each User. The ECM account would mirror the balancing operator account in that it would not attract Daily Imbalance Charges and would not be part of the Balancing Neutrality process.

The introduction of a disputes process may require the establishment of new Invoice Items\* on the Energy Balancing Invoice\*.”

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

The Proposer stated that:

“If implemented this Modification Proposal may introduce incentives which Users may view as significant enough to require putting in place appropriate arrangements and contracts, prior to the coming winter, through which the risk of incurring potential increases in cash-out costs might be mitigated.

Interruption and shedding of Firm loads during an Emergency are processes that a User must already facilitate if required. The Emergency Curtailment Quantity will also be facilitated through existing arrangements and hence no additional administrative or operational costs are envisaged.”

**Risk**

SGD noted, “The proposal could expose shippers to considerable cost and risk if the winter is colder than that set out in the domestic supply security standards in the suppliers’ standard licence conditions. These standards are defined by reference to winters which are exceeded only 1 year out of 20 years. This proposal is a marked departure from this and SGD would expect if this standard is exceeded that the requirements would be suspended. Otherwise, Ofgem should have taken this forward through amendment to licence conditions here as well as making standard requirements for shipper interruption in the licence.”

SGD commented, “By introducing costs and risks on shippers and large customers, consumers’ interests are not promoted. SGD believe that “Implementing this change will introduce resource constraints for shippers and customers”

EDF “does not support the implementation of this proposal as it stands, primarily because of the greater risks it imposes on shippers to understand and effectively respond in an emergency such that they can mitigate this extra risk exposure. However, EDF do believe the modification has some merits which are worth exploring further.”

SSE commented, “It is asserted in the Urgent Modification Report that a User who finds themselves out of balance at times of a GDE could trade out of that situation. However, in certain emergency situations market participants maybe unable to react to mitigate the significant additional risk that the proposed exposure to SMP Buy brings.”

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

It is to be expected that any change in the risk profile of Users would affect both upstream and downstream industry participants.

**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**

No such consequences have been identified by the Proposer.

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

**Advantages:-**

**The Proposer stated that if implemented the Proposal,** “Introduces appropriate incentives through which Users are encouraged to make suitable provisions to avoid entering into a Potential Network Gas Supply Emergency situation or, minimize the extent or duration of such a GDE.”

**The Proposer stated that if implemented the Proposal,** “Provides greater incentives for Users and Suppliers to manage their own portfolios and supply obligations.”

**The Proposer stated that if implemented the Proposal,** “Ensures that the correct responsibilities and liabilities are in place to ensure that demand is managed appropriately, therefore may reduce the risk of a GDE.”

**The Proposer stated that if implemented the Proposal**, “Ensures that Users do not have a financial incentive to withhold gas as a result of the GDE cash-out price determination.”

**The Proposer stated that if implemented** “The above advantages should have a positive effect on security of gas supply”

**Disadvantages:-**

**The Proposer stated that**, “It is recognised that the Modification Proposal adds some additional complexity to the commercial arrangements.”

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

**Representations were received from eighteen respondents.**

Total Gas and Power Ltd	(TGP)	<b>Not in support</b>
Statoil (UK) Ltd	(STUK)	<b>Not in support</b>
Shell Gas Direct Ltd	(SGD)	<b>Not in support</b>
The Association of Electricity Producers	(AEP)	<b>Qualified support*</b>
Chemical Industries Association Ltd	(CIA)	<b>Support</b>
Centrica Storage Ltd	(CSL)	<b>Qualified support</b>
E.ON UK	(EON)	<b>Not in support</b>
Transco NTS (Proposer)	(TNTS)	<b>Support</b>
British Gas Trading	(BGT)	<b>Not in support</b>
Scottish Power UK Plc	(SP)	<b>Not in support</b>
Gaz De France	(GDF)	<b>Not in support</b>
EDF Energy Plc	(EDF)	<b>Not in support</b>
Scottish and Southern Energy Plc	(SSE)	<b>Not in support</b>
ENI UK Ltd	(ENI)	<b>Not in support</b>
Transco Distribution	(TD)	<b>Qualified support**</b>
Scotia Gas Networks	(SGN)	<b>Not in support</b>
Northern Gas Networks	(NGN)	<b>Not in support</b>
RWE Npower	(RWE)	<b>Qualified support</b>

\*AEP supported the ECQ aspect of the Modification Proposal but believed that, “modification 0042 should be implemented with the ECQ parts of modification 0044

\*\*TDs support for implementation was limited to the setting of the SMP Cash-Out balancing incentive.

**Two respondents (TNTS, CIA) expressed support for the Proposal.**

**Four respondents (AEP, CSL, TD, RWE) provided qualified support.**

**Twelve respondents (TGP, STUK, SGD, EON, BGT, SP, GDF, EDF, SSE, ENI, SGN, NGN) did not support the Proposal.**

**In addition, one confidential response was received.**

### **Appropriate Incentives and Prices**

Six respondents (CIA, CSL, TD, NGN, RWE, TENTS) made comments in support of the principle of SMP creating appropriate incentives.

Four respondents (TGP, SGD, BGT, SSE) made comments expressing concern that SMP might be inappropriate or penal.

TGP understood, “Transco’s desire to modify the cashout regime to encourage additional demand-side response and thereby limit the duration and extent of a National Gas Supply Emergency (NGSE)”, however, TGP “remain of the view that unless customer concerns regarding participation in demand-side response are properly addressed then measures of this type alone may simply act as penalties and fail to deliver the response needed.” TGP were, “concerned that the proposal to modify the single cashout price structure and the proposed treatment of Transco initiated interruption during these periods may lead to confusion, thus jeopardising the benefits that simple, transparent and well understood rules are likely to deliver.”

CIA commented that, “As the gas market has not experienced an emergency under the current baseline, it is difficult to determine how quickly a Gas Deficit Emergency could be entered into and we note that different stages of an emergency can be entered into simultaneously. Bearing this in mind there may be little time for consumers and/or shippers, or prices to respond. We are in support of moving away from 30-day average System Average Price (SAP), to a cash-out that would provide stronger signals for Shippers to balance. We are aware that Shippers can refine their position through OTC trades during Stage 2, when the OCM has been suspended.” CIA expressed support for both modifications 42 and 44, but commented that, “they do little to amend the cash-out rules under Stage 1, and therefore the incentives already in place regarding emergencies. We do not see these modifications as the route to ensuring that the market does not enter into an emergency. They represent a small change to the existing arrangements.”

CSL believed that, “UNC0044 should be considered in relation to the incentives which could be created upon other parts of the system. Setting the SMP sell price to SAP should, all other things being equal, encourage shippers to overflow against their portfolio position. CSL maintains the view that the market is capable of fulfilling this function more efficiently under the existing mechanisms.” CSL considered that, “an advantage of neutral cash out is that it allows the decision by Transco NTS to invoke an emergency to be free from other influences. If this proposal is implemented then it will become very difficult for Transco NTS to verify to the Authorities that every action was taken and the opportunity for the marginal therm to be delivered duly given. By imposing SMP buy on all short shippers once the emergency is called Transco NTS will have to justify that the marginal cash out price was economically and efficiently set e.g. Is it the last LNG therm or the realisation that all remaining demand is firm and indifferent to further price escalation? This modification will introduce a new ability for Transco to manage demand in an economic and efficient manner without consideration for how this ability would be wielded. CSL believes that it is unwise to introduce such a mechanism without also introducing a strong framework for controlling the trigger conditions for when it would be used and the process which would be applied.”



SGD noted “ Ofgem’s statements in its letter on M0568, ‘SGD are not convinced by the case for increasing the price for cashing out imbalances. SGD note the conclusion as part of the GIEC discussions that the level of this price would not encourage more gas onto the system once a supply emergency had commenced. Rather, it would be the “command and control” aspects of the NEC that would ensure sufficient gas came onto the system. Transco and NGC have not identified cash-out prices in an emergency as being an issue that will impact on the safe operation of the gas system [in winter 2002/03 report].’

BGT commented that it is “entirely supportive of the principle to establish strong incentives upon all players to avoid entering an emergency situation.”, however BGT “still do not believe that the Modification Proposal adequately recognises the potential for the prior emergency incentive to become penal should an emergency be declared.”

GDF commented, “The use of System Marginal (buy) Price on the day is not an appropriate for Emergency Cash-out purposes and it is on this basis that GDF does not support this proposal.”

TD “believes that by far the strongest incentive set by the proposal is the SMP Cash-Out element of the proposal.” TD “agrees that to send the strongest market signal, SMP buy should be the price applied to gas imbalances.” ...“One possible draw-back of this could be that, in the event that a shipper suffers significant supply problems coincident with the emergency, significant volumes of gas could be cashed-out at SMP. The ECQ process would exacerbate this problem by "locking-in" any pre-emergency imbalance which the shipper would be unable to resolve once an emergency is declared.” TD commented, “Modification Proposal 0042 advocates a lower cash-out price. TD believes that this weaker incentive would not be sufficient to signal to shippers to self-curtail demand at times of high total system demand and high gas prices.”

“NGN do believe there is merit in adopting a SMP approach to cash out in such scenarios. The ‘polluter pays’ concept is a theme reflecting in many UNC areas and if adopted appropriately should be enough of a commercial driver to lessen the need for Firm and Interruptibles curtailment.”

SSE commented, “Modification 044 proposes to introduce a sharper cashout price that is supposed to be more reflective of market fundamentals on the day than the prevailing 30 day average SAP. Given that the cashout price applies to Users’ imbalances in an emergency, when the market has been suspended and SSE are in a command and control situation, cashout should not be so penal as to send parties out of business or give people windfall gains. However, if the emergency cashout price is too penal (e.g. SMP Buy) people might hold more gas in reserve for themselves in the lead-up to a GDE which would be a perverse incentive and not what’s best for the system.” SSE note that “It is also not clear (once a GDE is underway) how the User could alleviate the duration of that GDE by virtue of having (or not having) demand-side response in place as, during a GDE, Transco NTS/the Transporter would interrupt any load irrespective of whether it had a ‘commercial’ interruption arrangement with a User or not”. SSE commented, “To suggest, therefore, that by having demand-side response Users could alleviate the duration of the GDE is false as is the suggestion that amending the emergency cashout price could assist in this regard.”

Whilst RWE “still have some residual concerns that using a marginal price for cashing out negative imbalances may expose shippers to unmanageable risks in the event an emergency

develops rapidly on balance we believe this is preferable to using the current 30 day average SAP or SAP, as it will strengthen the incentive for shippers to balance and offer demand side response.”

Transco NTS commented, “It is the changed behaviours that Transco NTS believe implementation might encourage that will reduce the risk of emergency procedures being invoked and therefore better deliver security of supply to consumers.”

*Under the revised NEC Safety Case, Curtailment would occur at stage 1 while the market was still open and hence the Emergency cash-out prices would not apply. It should be noted that Emergency Interruption may occur at Stage 1 of a Gas Deficit Emergency and hence Proposal 0044 would change the commercial arrangements under Stage 1. While Users may have limited ability to trade within an emergency, once the market has been suspended, they might mitigate the risks associated with the Proposal by contracting for greater commercial ‘interruption’ and in the longer term greater supply volumes. Such behaviour by all or a number of Users would reduce the likelihood of an emergency if such additional supplies and demand response were utilised or made available to the market prior to a GDE.*

### **Balancing Incentives**

BGT “are supportive of the principles of correct incentives upon Users to balance and avoid entering an emergency”, but BGT “do not believe that this Modification Proposal fully addresses all the issues that arise when conditions require that an emergency situation is under consideration. Furthermore, it would introduce a penal regime should there be a declaration of emergency, as Users would continue to be cashed out at prices that did not reflect the market.”

TD “believes that the incentive to balance should be strong, and hence supports the introduction of SMP cash-out.” NGN “fully support the stance by which Users are appropriately incentivised to remain in balance.”

SSE noted that “Irrespective of the arrangements within the UNC market participants are under a statutory duty to operate in a way that maximises available gas during a GDE, rather than withholding gas. Therefore altering the emergency cash-out prices (for the suggested purposes of maximising gas availability) will no better achieve this goal than the current statutory requirements.” SSE believe that “Modification 044 is based on the assumption that the risk that Users could be exposed to (SMP Buy) would encourage Users to balance in an emergency situation.” SSE noted that the Proposal states:- “If a marginal cash-out price applies to those Users that are short in a GDE then it should be possible for such Users to trade out their imbalances”. SSE commented, “ this assumes (i) that Users are realistically able to react to these incentives and (ii) that there is a realistic market in existence with are other parties able, and willing, to trade at this stage, given the ‘command & control’ arrangements that are likely to be invoked by the NEC.” SSE commented, “In the event of a ‘sudden’ GDE, such as the catastrophic loss of one or more terminals, there will be, by definition, a lack of gas available in the market. SSE asks “how does the Proposer think that the User (who finds themselves ‘short’ through no fault of their own) could obtain gas to make up this shortfall”

EDF “are supportive of improving cashout arrangements in an emergency to strengthen shippers incentives to balance on such a day.” EDF “do not believe that it has been proven that this modification increases the incentives on Users to balance over current arrangements in a Gas Deficit Emergency (GDE). Therefore EDF do not believe it furthers Transco’s relevant objectives.”

CIA noted that it was, “working with Ofgem and National Grid to ensure that there are no barriers to demand side participation this winter.” And “would like to understand if this Modification would incentivise Shippers to balance their portfolio and potential impact on the market.”

Transco NTS “believe that the primary aim of the proposal is to create an environment where Emergency Curtailment is avoided. However, should such a circumstance occur, then the arrangements should maintain appropriate cash-out arrangements taking due account of the impact of Emergency Curtailment.”

CSL believed that current forward prices for winter ‘05 provide sufficient incentives on system participants to make appropriate arrangements without further market intervention.”

*The Proposer stated, “Any change to the cash-out price applicable during a GDE should ensure that Users do not have a financial incentive to withhold gas, i.e. the cash-out price for Users with a positive Daily Imbalance should fairly reward those providing gas to assist efficient management of the Gas Deficit Emergency, and ensure that Users have an appropriate financial incentive to offer demand-side response. Transco NTS believes that the cash-out price for Users with a negative Daily Imbalance should reflect the marginal value of demand response. This is important to provide appropriate incentives for Users to cover their short positions. A single cash-out price cannot reflect both these values and hence dual cash-out pricing may be more appropriate.”*

### **Small Volumes**

Three respondents (STUK, GDF, EDF) expressed concerns that the SMP buy price could be set by small volumes at extreme prices.

TGP was concerned that the proposal would apply, “SMP Buy prices to negative imbalances during emergency periods, particularly when small volumes have been used to set this price and/or the emergency has evolved rapidly. The application of SMP Buy prices in these situations we believe is likely to be penal and unlikely to reflect a typical market value for the gas. Should either of these events transpire we consider, as suggested in proposal 42, the application of the daily SAP immediately preceding the commencement of the emergency represents a pragmatic compromise between the need to appropriately incentivise users to balance and to ensure that the cashout price is not penal. This is likely to be the case since one would expect this SAP to incorporate the events/information leading up to the emergency and by definition be less likely to be skewed by the acceptance of small volumes at extreme prices.

AEP shared the concerns of some participants that, “a SMP BUY price could be set by a single bid possibly for a small volume at an extreme price. In a rapidly developing emergency the prevailing SAP would be more reflective of the true market value of gas than the SMP BUY, and would therefore strike an appropriate balance between providing stronger incentives to balance but avoiding a penal cashout price set by a single outlier

trade. Indeed in the absence of an outlier bid, if there was any kind of consensus in the market as to the price of gas and significant volumes were traded at this price then SAP and SMP BUY would tend to be similar. In addition under the current claims process any shipper who has a long position and does not consider that the emergency cashout price has adequately compensated them for the costs of sourcing additional gas may submit a claim for the additional costs.”

SSE noted that in the Proposal, Transco NTS states that, "If there were a number of small quantity actions that could be taken that, in aggregate, would aid the overall Supply & Demand balance position, then Transco NTS would accept them. In these circumstances, it is Transco NTS's view that, as the highest priced action has helped to resolve the supply/demand imbalance, it is appropriate for it to set the cash out price.”

RWE noted that, “Transco indicate that ‘a small quantity, high price action may well not be taken, as it would not aid in the overall supply/demand balance position’.” RWE “believe that this is an important statement of policy and should be recognised in the Transco procurement guidelines and their System Management Principles Statement, particularly as Transco have previously stated that they would be minded to take all operationally suitable offers irrespective of price. Subject to incorporation of this policy statement in the relevant statement, we would support the principle that a single economic and efficient marginal action is allowed to set the cash out price in a gas emergency.” RWE noted “Transco are proposing that a single marginal action could set the emergency price. However, this is in the context of a statement that, in taking balancing actions, Transco will assess the economics and efficiencies of a particular offer and will consider ‘whether the quantity of that action will have a discernible positive impact on the supply/demand position’.”

AEP was, “not entirely clear”, what actions on the OCM, “Transco would take in the run up to an emergency and during stage 1. Transco NTS has not taken the opportunity in the recent SMPS consultation to clarify this. It was our understanding that Transco would take all ‘operationally suitable’ offers in such circumstances, irrespective of price, which meant all trades that were likely to result in a change of gas flow, hence locational and physical trades rather than title trades. However discussions at the Transmission Workstream suggested that some small locational trades might not be taken if this were to set a price much higher than the prevailing SMP BUY price, and that this would be consistent with it's licence objectives to operate efficiently and economically, as the volume of this trade would not be sufficient to impact on the emergency situation. Whilst we accept that there are essentially conflicting objectives here we are concerned that the messages received by the industry may be in conflict. Currently we are hearing that demand side response will be an important aspect of ensuring security of supply this winter in the event of severe conditions and the Demand Side Working Group is actively considering how customer response can be facilitated and yet we are also hearing that even if demand side offers are placed on the OCM they may not be taken. We consider further clarity is required in this respect, or some of the more expensive demand side response may fail to materialise as offers on the OCM.”

*If Users have access to commercial ‘interruption’ then it would only be economic to action such ‘interruption’ if the resulting reduced cash-out exposure were greater than the cost of the action [not withstanding any other reasons a User may have for triggering commercial interruption]. As a Gas Deficit Emergency (GDE) or potential GDE will result from*

*forecast demand being in excess of available supplies, and hence by definition may require a response based on demand-side reduction, the Cash-out price associated with 'short' Users would need to be in excess of the unit cost of demand response to incentivise the behaviour that might lead to appropriate actions, through which a GDE might be avoided, or its duration or extent be reduced. The potential for Transco NTS to take appropriate demand-side actions that might move the cash-out price away from 'gas' costs towards 'demand-reduction' costs must remain if demand response is to have a role within the gas market outside of a GDE.*

*Transco NTS has stated in this proposal that it "will accept all economic and efficient offers on the OCM. In assessing the economics and efficiencies of a particular offer, Transco NTS will consider whether the quantity of that action will have a discernible positive impact on the supply/demand position. Thus, a small quantity, high price action may well not be taken, as it would not aid in the overall supply/demand balance position. If there were a number of small quantity actions that could be taken that, in aggregate, would aid the overall Supply & Demand balance position, then Transco NTS would accept them. In these circumstances, it is Transco NTS's view that, as the highest priced action has helped to resolve the supply/demand imbalance, it is appropriate for it to set the cash out price."*

### **Types of GDE**

AEP stated that it was, "disappointed that Ofgem was dismissive of concerns raised over emergencies developing over different timescales and the impact SMP BUY pricing could have in an emergency that progresses rapidly and does not provide time for shipper / customer response even though a high SMP BUY price may have been set. We expect Ofgem to explain more fully why it is unwilling to consider scenarios where an emergency develops rapidly." EDF "believe that there are many different types of emergencies caused by different parties including Transco, which have not been thoroughly discussed or thought through fully." EDF commented, "if an emergency happens suddenly, through a major terminal going down, then shippers will have no time, choice or incentive to balance yet they will be forcibly cashed out at what will probably be extreme and penal prices."

SSE commented that, "A Gas Deficit Emergency can be caused, generically, in one of two ways; either a 'progressive' set of circumstances (such as deterioration in the weather) or a 'sudden' event (such as the catastrophic loss of a terminal, or a number of terminal, etc). Therefore Modification 044 has to address both types of causations of a GDE otherwise it must, by definition, be an incomplete, and thus flawed, solution." SSE believe that "It is clear that Modification 044 attempts to only offer a solution to a GDE caused by a 'progressive' set of circumstances and that it does not address a GDE linked to a 'sudden' event, such as an act of aggression by those seeking to do harm to our society." SSE concludes, "that Modification 044 is incomplete and flawed and therefore cannot be said to better facilitate any relevant objectives. To approve such a Modification knowing that it does not offer a solution to the causations of a GDE would also bring the modification process into disrepute."

SSE commented "emergencies are by their very nature different, depending upon circumstances. Some are 'progressive' in nature; for example, a general deterioration in the (forecasted) weather situation; whilst others are 'sudden'; such as an explosion (caused



perhaps accidentally or deliberately by those seeking to cause harm to our society).” SSE commented,

“For a 'progressive' emergency it maybe that the market could, in an ideal world, be able to react in the way that appears to be envisaged by this Modification 044 proposal; although SSE have doubts that this would work in practice.”

SSE commented, “for a ‘sudden’ event (such as the catastrophic loss of a terminal, or a number of terminal, etc.) there will be little, if anything, that the market can do to prevent a GDE occurring. It would not, in such a situation, be a question of ‘reacting to an incentive’ as there are no meaningful actions that the User could take to either prevent or alleviate the GDE (it cannot fix a failure at a terminal!).” SSE commented, “Events that occur out with the direct control of the User, such as the security/safety arrangement at a terminal (which are subject to Government and regulatory oversight), which may be linked to a ‘sudden’ GDE, cannot be said, by virtue of Modification 044, to be the responsibility of that User.”

*If a Gas Deficit Emergency develops so quickly that the NEC calls stages 1,2&3 at the same time then the market would be suspended and any consequential high priced trades could not be offered, accepted and factored into the cash-out price determination. If an emergency is progressive then there is scope for increased cash-out price exposure but there may also be more time to mitigate the risk of such cash-out exposure.*

### **Short Duration Emergency**

SSE commented, “This Modification proposal 044 does not address the fact that UNC rules incentivise parties to balance by the end of the gas day. Therefore, in the scenario that an event occurs early in the gas day, and is of short duration, a party that was in balance before and during the emergency, but later goes out of balance, could be penalised even though they have, in respect of the emergency itself, had no discernible negative effect on the emergency situation at hand.”

*Emergency cash-out prices only apply after Market (OCM) suspension and the Market would only be re-opened at the start of the next gas day. If the Market had not been suspended there may be opportunities to avoid a negative imbalance. A User that has a negative imbalance is effectively buying gas through the cash-out clearing mechanism and hence is buying gas delivered to the system over the course of the entire Gas Day.*

### **Process**

Six respondents (SP, TGP, AEP, CSL, SGD, SGN) expressed concerns and disappointment in regard to the development timescales of this, and associated, Urgent Modification Proposals.

TGP considered, “it vitally important that when emergency arrangements have been initiated that all system users clearly understand their roles and the financial implications of their actions in order to effect physical flows that minimise the severity of a NGSE.”

AEP reiterated concerns regarding, “the processes which have led to this revised proposal, these seem to have been developed in relative isolation from the industry and its views. Notice of this topic being discussed at the Transmission Workstream was only given late during the previous working day, making it unlikely that participants if they were able to attend would be adequately prepared for the discussions. Also the suggestion by the

industry that the cashout and curtailment quantity aspects of the proposal be raised as separate modifications was completely ignored, for reasons that are unclear. Finally Transco did not issue the draft modification for discussion at the workstream meeting on 11 August, preferring instead to raise it just one day before, given the criticism Transco faced over the processes around modification 0021.” AEP believed that, “The workstream process is to ensure adequate consideration of proposals by an informed group of stakeholders, not only to inform participants of proposals that have already been raised. Bypassing these processes in this manner is clearly not efficient, creates opposition from the industry and seems to imply that Transco does not wish to receive any input from its customers.”

In respect of Modification Proposal 0044, CSL believed that the “two parts” of the modification would be, “better considered separately so that the weighting of the separate benefits and drawbacks can be considered separately. A weaker and less clear change to the UNC should not be able to gain implementation on the back of the balance of benefits provided by a stronger and clearer change. CSL urged the final modification report to be split into separate modifications for separate consideration.”

SGN “is concerned that there is still a significant level of inconsistency and lack of clarity within the Modification Proposal and between the Proposal and legal text. In particular terminology used to define the emergency cashout price and emergency curtailment quantity are at times inconsistent and unclear.” SGN “do not believe proposed arrangements are sufficiently well defined. Furthermore, details regarding provision of information to Users and the timing of such provision are not clear.” SGN commented, “It has been reported that the proposer reserves the right to amend legal text where errors, omission or improvements could be made. Given the extent of additional information circulated at various stages of this proposal, and importance of legal text, SGN believe it is essential that any further changes should be circulated to all interested parties to ensure they have a further opportunity to submit additional comments before this proposal is considered by the Panel and Ofgem.”

SSE “are not clear that it is permitted, within the rules for dealing with modification proposals, for the Proposer to issue “clarificatory notes” part way through the consultation process.” SSE “have heard that the Legal Text could be refined (by the Proposer) prior to the Panel recommendation, but without other parties to the UNC having an opportunity to see, or comment on the revised Legal Text. As a minimum interested parties who have responded MUST see, and be able to provide comments on, the Final Modification Report given the commercial significance that the proposed change amounts to.”

*No procedural breaches have been identified in relation to this Proposal by the SME. While Modification Proposal 0021 was rejected on procedural grounds this was mainly due to the incorrect interpretation in regard to the use of a UNC defined term and the resulting legal interpretation that as a result a legitimate consultation had not been carried out. No such specific incorrect interpretation has been identified within the responses to this Proposal by the SME. It should be noted that there are provisions within the UNC Modification Rules (10.4) that allow for the review of the content of an implemented Urgent Modification Proposal.*

*While the Proposer, as part of its response, has provided additional legal text, this has been to add greater clarity and to correct a manifest error. Such an approach is consistent with the UNC Modification Rules.*

### **ECQ Methodology**

TGP observed that, “it is not clear whether, extending further the ECQ methodology to encompass firm DM load, this increases the commercial impact upon I&C Shippers relative to domestic Shippers.”

With respect to the curtailment quantity, AEP stated that it continued to, “support the principle of this and agree that it is logical that this should be extended to firm load where firm load shedding is initiated at stage three of a gas deficit emergency. We also consider that this might encourage enhanced demand side response during the early stages of an emergency. We welcome the clarification of the ECQ methodology that Transco NTS plans to use and the provision of site specific ECQ information to shippers after the day. Whilst we continue to believe that this should be included in the Code, we accept that this could be achieved at a later date. We do however have some ongoing concerns over the complexity introduced by the P70 process in an emergency situation, which may be the only time this is used for firm sites. There is potential for this to deflect attention from the more important issue of managing the physical balance of the system, in particular demand reduction, whether that be initiated by Transco, a shipper or a consumer. The most significant change is the introduction of an appeals process for the ECQ quantity, this addresses many of the concerns we had over this aspect of the proposal. As long as this process is managed sensitively and recognises that in an emergency it is the physical response that is all important and commercial issues can be addressed subsequently via an appropriate audit trail then this should offset some of the commercial risks that were created under the previous proposal. We are therefore now able to support this aspect of the proposal.”

CIA considered that, “with the introduction of the curtailment volumes, as proposed under modification 44, a Shipper is left neutral to the impact of Emergency Interruption or Firm Load Shedding. Stage 2 is often referred to as command and control and Shippers should not lose out or benefit from any instructions from the Network Emergency Co-ordinator.” CIA welcomed, “the fact that the Emergency Curtailment Quantity has been extended to firm sites that may be impacted in Stage 3 of an emergency.” CIA supported, “moving away from the current 30-day average SAP cash-out price during Stage 2, and we support the introduction of an ECQ calculation.”

CSL believed that, “this aspect of the proposal seeks to incentivise interruptible load (Interruptible Supply Points) from the system prior to an emergency being declared – this is achieved through ‘compensatory’ payments being likely to be far lower than the worth of the marginal therm on such a day – thus imposing an opportunity cost on those sites and their shippers. CSL is therefore minded to accept that the 30 day average SAP represents a level of compensation which would incentivise sites to self interrupt. CSL does not fully understand the price payable to shippers from firm loads and the effect on the shipper balance following such an interruption.”

STUK noted, “the proposal seeks to introduce an Emergency Curtailment Quantity Trade as part of the new measure to incentivise Shippers to balance.” While STUK “believe this proposal may have merit it needs further discussion and development.”

BGT commented, in regard to the ECQ methodology, “This is an approximation of the volume of gas that would have flowed had there not been interruption. Although there has been some debate and guidance note issued on the application of the methodology, BGT do not believe that there is yet a common understanding of how this would operate in practice.”

SP “agrees with the thinking behind the Emergency Curtailment Quantity (ECQ). Although SP have concerns over the transparency of the calculation methodology, SP believe that the most relevant information should be used to determine what the ECQ would be, and are happy with a multi-stage approach dependent of the level of information available.”

GDF “welcomes the additional clarity provided by the proposer, over and above that contained in Modification proposal 0021, in relation to title trade quantities.”

EDF “do not believe that there has been sufficient discussion of how this calculation will work or be applied in practice”. EDF “believe that the industry would also draw greater comfort from having the methodology published in the UNC.”

In relation to the ECQ, TD “believe that it could just as well be calculated by Transco NTS. TD would be prepared to provide Transco NTS with information relating to the any P70 forms submitted and the interruptible or firm sites it had issued orders to cease offtaking gas. The presence of a central team to process the ECQ would seem to be a more efficient way to discharge this particular aspect of the proposal.” TD “does not believe that the ECQ calculation process would operate as efficiently in practice as it would in theory. TD remains unconvinced of the operability of the ECQ mechanics. Although, if Transco NTS believe it is essential as an additional balancing incentive, then it should put in place procedures for managing the ECQ process. In this respect, TD believes that the ECQ calculation should use as its starting point closed out energy values for estimating consumption, (already used by both DNs and NTS for transportation and energy billing purposes), and not within day or D-1 volumes.”

SGN commented that whilst it “agrees that in principle it is not appropriate that parties benefit from emergency interruption, it is not at all clear to SGN that this is a significant issue or priority for this coming winter.”

NGN was "unconvinced that that the true impact of introducing the full ECQ trade aspect across all potential loads has been fully contemplated.” NGN questions the “Appropriateness of Interruption Manager for calculation of cash out. Our understanding is that IM is calculated in volumes, whereas the requirements for the calculation are in energy.”

Transco NTS “highlight that Users have access to a claims process, should they seek to use it, designed to ensure that if they believe any resulting ECQ component is inappropriate then the ECQ can subsequently be adjusted following expert determination.”

*Under the Proposal, the methodology for calculating the ECQ is the responsibility of each Transporter and hence the detail of the methodology provided by Transco NTS is not proposed for inclusion within the UNC. Each Transporter that has identified potential improvements or clarifications to the methodology provided by Transco NTS could incorporate such changes in its own methodology which might lead to a single Transporter*

*methodology prior to the coming winter. The impact of the Proposal in respect of the payment and treatment of imbalance volumes should be identical in regard to Interruption (of Interruptible Supply Points) and Firm load shedding at Stage 2 of a GDE.*

### **UNC Defined ECQ Methodology**

STUK commented, “a concern that the ECQ calculations are not part of this proposal and not to be included in UNC.”

TGP considered that the inclusion of the ECQ methodology within the UNC “would have provided users with the confidence that each transporter would apply a common methodology to ECQ volumes during a NGSE. Without the inclusion of the methodology within the UNC it is all too easy to envisage confusion on the part of users and an expensive and inefficient post NGSE disputes resolution process.” TGP considered that, “the ECQ methodology would benefit from further discussion particularly the development of an agreed transporter methodology that provides users and customers with reasonable opportunity to participate in discussions and adjust their contractual arrangements accordingly.” TGP commented, “Whilst the proposal to include a disputes resolution process within the UNC and Transco’s production of an ECQ methodology may alleviate some of the process concerns, it is disappointing that Transco have not sought to include this methodology within the UNC and provide associated legal text.”

SSE commented, “there is no compunction for any of the Transporters to follow the methodology suggested by Transco NTS. This is a potential receipt for confusion, duplication of effort and waste of resources, particularly on the part of Users who would receive a ECQ volumes potentially calculated via a variety of different means. The User would have to familiarize themselves with each of these different means of calculation before deciding if it was correct and then make a claim, noting that the timeframe for submitting a claim has still to be stated.” SSE asks, “Why will the methodology to be used by Transporters (to calculate the ECQ) not be contained within the UNC?”

RWE “continue to believe that the ECQ calculation methodology should be included in the Uniform Network Code and subject to the associated governance and still do not understand how this will be applied at sites for which no within day load information is available. Given the clear views on this matter from the Authority we do not understand the Transco conclusion that this is a ‘medium term issue’. In particular, we are concerned that that the Transco proposal to develop an ‘optimal way forward’ reflects the fact that Transco has not sufficiently developed a robust methodology for the calculation of the ECQ, and that other transporters have not yet properly considered this. Subject to the Authority’s decision on UNC0044, we believe that Transco should commit to raising a non-urgent modification as soon as practicable to address this shortcoming.”

*Inclusion of a single ECQ methodology, applicable to all Transporters, within the UNC would have provided greater consistency and simplicity and would clearly have been supported by the majority of respondents. Judging from the responses of the Transporters to this Proposal, agreeing a single ECQ methodology, applicable to all Transporters, for inclusion within the UNC would have taken additional development time and hence may have put at risk the potential to raise a Proposal based on an ECQ methodology prior to the coming winter.*



## Claims Process

AEP welcomed, “the introduction of an appeals process for the curtailment quantity amount, we consider this is as significant improvement over the original proposal and has reduced the extent of unmanageable risk associated with the ECQ quantity that shippers and potentially customers could face in the event of a gas deficit emergency being declared.”

CIA expressed support for, “the introduction of an appeals process for the ECQ.”

SGD noted, “A principle established when the industry first considered ECOA was that any arrangements should reduce the number and size of claims for financial loss, and hence for hence the time and effort taken to resolve matters after an emergency.” SGD “do not know when or how it was decided that this principle no longer applied. If an emergency does occur and a lot of time and effort taken to resolve matters, it will increase costs for all parties. While a disputes resolution process mitigates somewhat concerns that have been raised, it is insufficient.” SGD “consider Transco NTS’s refusal to include price claims in this process undermines any value that this could have.”

STUK also believed that the process would benefit from some cost benefit analysis. The management of these processes during an emergency situation and the potential of resulting ECQ appeals could prove costly.

SP noted, “The Claims Process is extremely important but SP believe sufficiently developed to be implemented along with the rest of the ECQ methodology. Any changes to the procedures surrounding the calculation of the ECQ and the claims procedure can be made subsequently.”

“The appeals process as part of this proposal is welcomed” by EDF but “believe that it’s best to get it right from the start rather than going through some complex dispute or appeals process which could take months to resolve.”

TD “also has concerns about the considerable potential for disputes to the ECQ value bearing in mind the shipper's exposure to the cash-out price. As the ECQ process deals with the quantity of gas that would be oftaken there is also considerable scope for disputes in relation to the exact time that the site stopped consuming gas and does call into question the efficiency and diligence of the transporter when issuing notice to end-consumers to stop consuming gas. In other words, where a shipper is in balance when an emergency occurs, it will only neutralise its ECQ where its ECQ equals the gas demand physically removed from the system. Over-estimated ECQs would be a concern for shippers and would be the subject of significant after-the-day challenge, review and reconciliation.”

TD “believe as this is essentially a reconciliation of energy matter and would be best managed by Transco NTS as counter-party to any reconciled traded energy.”

NGN “have concerns about the impact of the potential number of disputes driven by the adoption of this proposal in its current form. The unknown materiality of such cash out impacts, makes it extremely difficult to gauge what levels maybe encountered. What is less in dispute is that the lodging of appeals, there due consideration and potential unwinding of charges based on such appeals will provide for uncertainty in terms of Users financial positions and potentially in terms of transportation revenue for transporters.” NGN noted, “Whilst this is an energy related financial consideration, the practicalities are that

transportation invoices may be similarly ‘squeezed’ if a User faces considerable charges by way of this process, which of course will need paying even if Users are able to appeal.”

Transco NTS “highlight that Users have access to a claims process, should they seek to use it, designed to ensure that if they believe any resulting ECQ component is inappropriate then the ECQ can subsequently be adjusted following expert determination.” Transco NTS commented, “In response to the discussions and correspondence that have taken place with regard to this Proposal Transco NTS believe that it would be appropriate to amend the legal text in respect of the adjustment processes that would apply after a successful ECQ adjustment. The changes deliver the intent of the proposal with greater clarity and are consistent with discussion in the UNC Transmission Workstream and the note providing clarification referred to earlier in this submission. For completeness Transco NTS have also included a further attachment to this response in a change marked form to indicate changes from the proposal legal text that was available for the consultation.”

SSE “assume that there is an ability for a User to appeal any decision by the independent reviewer to the Authority. In respect of the handling of any claims actually made, who pays for this as SSE cannot see this within the Legal Text.”

RWE noted “The inclusion of a claims process that enables shippers to dispute the volume calculated through the ECQ methodology provides shippers with a reasonable degree of protection against inaccurate ECQ Trades being attributed to them. We are concerned however that where the dispute relates to the calculation methodology that the claims reviewer will be unable to determine the basis of such a claim if the ECQ methodology sits outside the UNC.”

*The SME notes that while there is explicitly no ECQ trade price claims process, the Emergency Cash-out claims process would still apply, in regard to over delivery, should the Proposal be implemented. Transco NTS noted in it Proposal that “For the avoidance of doubt, there will be no price claims process in relation the Emergency Curtailment Quantity trade as Transco NTS believes that such a process would have a detrimental impact on the intent of this Modification Proposal in regard to the generation of incentives.” Based on the understanding that the incentive properties of the Proposal relate to the price differential between the ECQ Trade Price (30 Day SAP) and the ‘short’ Emergency cash-out price (SMPbuy), it is clear that a claims process in relation to the ECQ trade price might reduce the differential and hence weaken the incentive properties of the Proposal.*

*The changes to the legal text made by the Proposer in response to this modification replace a single general calculation of the monies payable post a successful ECQ claim (which appeared to include an error as it combines prices and charges) with greater clarity in respect of the components of such a payment. The revised legal text breaks the payment into the component associated with the revised ECQ trade payment and an adjustment for the impact of that revised quantity on the Users cash-out clearing charge. The legal text now details the calculation of this second component given all potential combinations of a Users initial Daily Imbalance and their resulting Daily Imbalance post a successful ECQ claim.*

## **Neutrality**

SGD “would welcome National Grid’s confirmation that if the dispute resolution process is used and any costs to Transco NTS arise, it will pay for these direct and not be seeking to recover any monies through an Income Adjustment Event.” SSE note “that it appears that Transco NTS will carry out an NBP disposing nomination and that the User will be deemed to have made an acquiring nomination for that volume, and they will be paid the ECT. However, it is not clear where the money for this payment will come from!”

*The Proposal states that the ECQ trade will be treated as a Market Balancing action for the purposes of Energy Balancing Neutrality. As with the prevailing arrangements, all claims will be recovered from Energy Balancing Neutrality.*

### **Interactions with UK Imports**

CSL considered that, “the key to the emergency cash out mechanism is attracting price sensitive load within the European Internal Gas Market and it may now be time to consider whether using a frozen cash out mechanism provides the dynamic qualities associated with a protracted GDE.”

SGN “does not believe cashout proposals alone would have a significant impact on UK deliveries. SGN believe there are wider issues that need to be considered e.g. contracting arrangements, market liberalisation, European market conditions leading up to and during the emergency etc. SGN believe this was demonstrated during February / March 2005 when gas continued to flow from the UK despite price rises under difficult conditions in the UK.”

SSE commented, “As witnessed by events earlier this year, SSE is of the opinion that an emergency cashout price is unlikely to have any influence on gas supplies turning up from Europe. Again, by the time emergency cashout is invoked, we are into command and control, and the Interconnector will be told to import if it can.”

*No Emergency was called during February / March 2005, the System did not fail and hence appropriate flow rates from and to the UK must have been achieved such that the System could be balanced. The NEC would direct the Shippers at the Interconnector to flow gas and not the Interconnector operator.*

### **Interaction with Transco Incentives**

CSL believed that, “There may also be some complex interactions between Transco’s incentives which the short consultation period has not afforded sufficient time to analyse.”

*The SO Residual Balancing Price Incentive is based on market balancing actions and hence is not applicable in Stage 2 of a Gas Deficit Emergency once the Market has been suspended.*

TD “is clearly concerned that in the event of a prolonged cold winter, high levels of unnecessary pre-emptive shipper-led curtailing of firm load could result in a reduction in throughput and the consequential reduction in transportation revenue.” TD “could run the risk of incurring significant reputation damage were firm sites to be instructed to cease consuming gas without an emergency being in place. While these ‘interruptions’ would be contractual by the parties involved and not dependant on the transportation capability of the network, they could be construed by the uninformed as reflective of under investment in network capacity.”

## Safety Case

CSL understood that, “Transco has modified its safety case in a way which will cause significant changes to the market with respect to emergencies. It is therefore difficult to contemplate these varied modifications whilst potential changes to the Gas emergency rules are awaiting consultation elsewhere. As a matter of process we consider it prudent to discuss all matters pertaining to emergency at an industry specific forum. CSL also seek consideration on the situation regarding trading activity during stages 2 and 3 of a GDE.”

“Although ENI support the principle areas of this alternative modification proposal, we believe this proposal still requires further clarity. In particular, ENI believe that clear communication and guidelines are required to define at what point a Gas Supply Emergency would be declared.”

TD “believes that successful implementation is dependant on sufficient information being available from NTS, to ensure that shippers are able to make the right economic decisions right up to the point that an emergency is declared. While the market provides one such signal, further information may be required to ensure that shippers decisions to curtail firm demand are optimised.”

SGN “is concerned that it could actually have a detrimental impact on a Transporter's ability to manage an emergency and longer-term security of supply and competition. SGN do not believe such arrangements should be implemented without thorough impact assessment.”

*The Safety Case modification, to which CSL is referring, is to the NEC Safety Case, resulting from proposals by the NEC, and not a modification to the Transco NTS Gas Transporter (GT) Safety Case. All relevant parties have a duty to cooperate with the NEC in the event of a GDE or a potential GDE and this Proposal does not affect that obligation. For this reason the Proposal would not affect a Transporter's ability to manage an Emergency. The incentives that the Proposal creates are largely to change behaviour to avoid an Emergency. The incentives applicable within an Emergency relate to the availability of non-UK price sensitive supplies which the NEC may not be able to directly control.*

## Storage Monitors

EDF noted that “due to the removal of Top-up and the introduction of storage monitor levels that an emergency can be called at a moment's notice if any monitor level is breached by as much as 1KWh. When considering that in the short-term the most likely monitors to be breached would be LNG storage, which could take many days to replenish, then EDF are talking about lengthy emergency periods where extreme cashout prices would be in place despite the industry's inability to refill LNG storage. Therefore, EDF can't see how dual cashout prices in this situation would help restore LNG storage levels.” EDF “can see that where an emergency happens gradually, with the depletion of larger storage facilities, then there is some merit in having greater incentives on shippers to balance, which take into account the volatility of price changes.”

BGT commented that this proposal does not address BGT's “concerns with respect to the potential duration of an emergency. The modification is based upon the premise that the signals are sufficient to avoid entering an emergency but we are concerned that it may be

difficult to lift the emergency condition if it had been caused by a breach of the short-term (LNG) storage monitor.” BGT “still believe that the issue of recovery from an emergency, if caused by a breach of the short-term safety monitor, requires further consideration.”

*Under the revised NEC Safety Case (March 2005) the NEC’s ability to curtail storage flows is under stage 1 of an emergency when the Market would remain open and hence Emergency cash-out prices would not be applicable.*

### **Market Arrangements**

SGD offer the following scenario; “A shipper with customers (“Shipper A”) can cover their positions in the market by buying physical gas (ie from a producer) or title to gas (ie from the traded market). Shipper A may purchase gas in the market from traders (“Shipper B”) who in turn may have arrangements with storage operators, to import gas through the Interconnector, etc. Or a trader could decide to go short as it takes a risk on the direction of the market – as a purchaser, should Shipper A be demanding evidence of physical deliveries from Shipper A. Furthermore, if events make Shipper B short of gas at very short notice (as can occur in an emergency), how will Shipper B access demand side from Shipper A.?” SGD noted, “The approach taken with this proposal appears to suggest that this market-based activity should not be undertaken and instead shippers should cover their gas demand with physical deliveries. Already there are concerns about liquidity in the future market: this proposal will undermine it further which will not be in the interests of consumers.”

*A mix of commercial interruption and physical gas to ‘cover’ all demand, as an alternative to 100% physical gas ‘cover’, would allow for continued use of Market arrangements. As with any commercial arrangement, there is potential for provisions should there be a failure to deliver. In the example given, a User with no access to commercial interruption could forward contract with any party to access commercial interruption in the same way that they might forward contract for gas.*

### **Demand Side and DSWG**

SGD noted “that UNC0021 was raised days after the publication by Global Insight’s Report for the DTI and Ofgem on demand side response and yet neither that proposal nor this one takes any account of the findings of that report. The report did not find that emergency cash out prices had any bearing on the level of demand side response. What it did find was that there were groups of customers with strong incentives to participate in demand side activities; that during times of high prices, and that shippers would contact customers to negotiate demand side reduction. Factors which hindered demand side participation included “psychological factors” and environmental constraints.” SGD noted, “There remains no evidence that shippers are not sufficiently incentivised to contract for demand side; there is some evidence that there are barriers relating to customers’ understandings and requirements.” SGD noted recent press reports that “British manufacturers have warned that they may have to half production this winter as a result of higher gas prices”. SGD commented, “This would indicate that demand side response is working well in reaction to market prices, as Ofgem had previously suggested it would.”

GDF noted, “Every prudent action should be taken to avoid a Gas Deficit Emergency from occurring. Supply-side response and appropriate pricing arrangements are important to this



but also critical to this debate is demand side response, which should be considered as an integral part of pre-emergency arrangements.” GDF noted, “It is important to stress that all commercial demand side options should be fully developed by industry participants and accepted by Gas Transporters ahead of a potentially tight supply/demand situation. Demand side offerings should be exhausted before emergency conditions are declared and hence the requirement to change the current emergency cash-out prices became less necessary.”

*Clearly the Proposal cannot lead to greater supply levels during the coming winter but it may incentivise continued flow of price sensitive supplies into the UK. SGD noted, “changes to how charges are allocated make no difference to the availability of sites which can be interrupted” but more sites may find it more economic to be interruptible if Users place a higher value on such ‘interruption’ as a result of any increased cash-out exposure resulting from the implementation of this Proposal.*

### **Dual Price Cash-out**

SGD noted “that in a recent paper by Professor Stephen Littlechild ( “Smaller Suppliers in the UK Domestic Electricity Market: Experience, Concerns and Policy Recommendations” 19 June 2005), he sets out problems with a dual cash-out price regime and notes, in particular, that it introduces a bias against smaller suppliers. While the issues he raises may not apply directly to ECOA, it not clear to us that it introduces better cost targeting and is likely to result in a tax on certain types of participants. As such, it can be seen as introducing discriminatory arrangements.”

SSE “do not support the proposition, in Modification 044, that in an emergency situation dual cashout prices are appropriate. In such a situation the penalty associated with dual cashout prices (particularly when based on an ‘extreme’ price, such as SMP Buy) is wholly inappropriate.”

*A single Emergency cash-out price cannot be high enough, relative to typical market operation, to incentivise a demand response without also creating an incentive to withhold gas until a GDE has been initiated.*

### **Renegotiating Contracts**

“SGD cannot see how shippers will have the time to re-negotiate contracts before this winter, if this is the intention of the proposal.”

TD “has a concern regarding the ability of shippers to reflect these arrangements in the contractual arrangements with end consumers and to this end, TD believes it would be beneficial if Ofgem carried out a "readiness" investigation and report to the industry that these new arrangements have been implemented across the supply chain.”

Given the very short implementation timescales proposed SGN “do not believe Users will have adequate time to adjust contractual positions or revisit strategies for this coming winter. As such it is unlikely the proposal would achieve much of the intended result, particularly in relation to demand side response.”

### **P70 & P70 Firm**

STUK commented, “The introduction of the ‘P70 firm’, adds a further level of complexity with little apparent benefit. Further clarity is needed as to the acceptable timing of a receipt

of a 'P70 firm' by the transporter as the calculation of the ECQ and the appeals process will be strongly dependant on this. Currently there is a reasonable endeavours obligation surrounding the P70 which is assumed to be applied to the P70 firm, but as the proposed cash-out risk has the potential to be high, some further clarification is needed."

SP "agree that commercial interruption should not count towards the ECQ. "

EDF "do not believe that this procedure will work efficiently in an emergency, especially one where it has developed rapidly; Transco would not have time to process a large number of forms to decide who, and when, to interrupt. This could cause Transco miscalculate how much gas is actually available."

TD is not convinced that "the submission of P70 FIRM forms is guaranteed to provide sufficiently timely information in the run up to an emergency to effect its declaration." TD noted, "emergency procedures allow for entire interruptible demand or a portion of the interruptible load to be interrupted without resorting to firm load-shedding. Where this is the case the shipper may well be interrupting sites, submitting P70 and P70 Firm forms right up to the point an emergency is declared with the intention of excluding them from its ECQ. Operationally, however, the decision to call an emergency would be based on the national balance between Terminal Operators' Terminal Flow Notifications and DN's Offtake Profile Notifications ("OPNS"). If shipper initiated demand management is not reflected in the OPNs, and in the run-up to an emergency it would be difficult to assess the confidence levels associated with the P70 notifications, then the actions of the shippers may not prevent an emergency, (although the P70 notifications would ensure that the demand associated with the relevant sites would not be included in a shipper's ECQ)." TD commented, "Given the level of cash-out, there is considerable scope for shippers to dispute the validity of a decision to declare an emergency, where they believe that the demand reductions initiated by them should have been sufficient to avoid the emergency, but these have not been factored fully into DNCC's OPNs. The key dependency on this point is for a shipper to ensure that the P70 is submitted in a timely manner and that the demand is removed promptly from the network. This is not efficient operation of the pipeline system but, on balance, over interruption may be better than invoking emergency procedures."

SSE commented, "It is proposed that there is a new requirement placed upon Users; where demand management/commercial interruption (or reinstatement) takes place at Firm supply points; for User to inform relevant Transporter within one hour of the discontinuance or at least one hour before resumption. This includes an estimate of impact on volumes of gas offtaken. However, this in addition to the existing UNC obligation to inform the Transporter of same at Interruptible Supply Points. It is not clear why this is needed in addition to the revised OPN/DM Renomination information, which will already be provided by the User to the Transporter." SSE stated, "it is clear that a User has no choice but to submit not only a P70 for its 'commercial' interruption end consumers (as required by the UNC) but also that the User will have to notify Transco NTS/the Transporter where firm customers alter their requirement for gas. This will clearly lead to (i) a flood of faxes to-from Transco NTS/Transporters/Users and (ii) a flood of phone calls to-from Transco NTS/Transporters/Users. Thus at times of a GDE what can be certain, if Modification 044 is approved, is that there will be communication 'Grid Lock' between Transco NTS, Transporters and Users. Rather than seeking to manage the GDE and minimise its impact,

Transco NTS, Transporters and Users will have to utilise precious staff resources completing/sending/handling faxes and making/receiving phone calls.” SSE commented, “in the ‘Notification of Demand side curtailment to relevant Transporter – Proposals put forward in UNC Modification Proposal 0044.’ paper circulated on 15th August 2005 the Proposer states that:-the requirement to submit a P70 ‘firm’ form would not be limited to the period of a Network Gas Supply Emergency or Potential Network Gas Supply Emergency. A P70 would be required at either Firm or Interruptible System Exit Points at any time where the User has exercised an entitlement to require the consumer to discontinue consuming gas from the Total System. Thus, in the Urgent Modification Report it refers to that quantity of gas ‘notified to the relevant Transporters prior to [the GDE]’ whilst the P70 note implies it to applies to all quantities of gas notified before, during and after the GDE. Which is correct: it cannot be both? In addition, the Legal Text only refers to the User notifying the Transporter where the User:-‘exercises....any entitlement to require the consumer to discontinue consuming gas off-taken from the Total System on a Day’. However, it does not take account of circumstances where the end consumer freely chooses to discontinue using gas (perhaps in response to a public appeal from the Government, the Authority, Transco NTS, its Shipper etc.) and the User notifies the Transport of this. What is the legal position of that notification?”

*The SME notes that the obligation to inform the Transporter of commercial interruption is an existing UNC obligation and the P70 process is an existing arrangement in regard to Interruptible Supply Points. Expanding the existing arrangements to Firm Supply Points represents an increase of approximately 65% to the number of applicable sites and is analogous to all eligible Firm sites converting to Interruptible status.*

### **OTC Trading**

STUK noted, “Once the market is suspended it is unclear how OTC trading would respond.” SSE asks, “even if the OTC market were to be in existence at the time of an emergency who, realistically, would be trading anyway”. RWE “ welcome the clarification that trade nominations at all stages of a Network Gas Supply emergency will be accepted and that UNC TPD Section C5 will continue to apply.”

### **UNC0021 Decision Letter**

Transco NTS “recognise and support Ofgem’s view (expressed in the Modification Proposal 0021 decision letter) that the emergency arrangements would benefit from amendment of both the cash-out price determination and the introduction of the Emergency Curtailment Quantity (ECQ) concept.” ENI “recognises the need to modify the status quo for this coming winter and welcomes the fact that Transco NTS have now addressed some of the many concerns raised by Ofgem within its decision letter on modification 021.”

BGT acknowledged that this Modification had been raised following the rejection of Modification Proposal 0021 and was expected to address all the concerns expressed within the rejection letter issued by Ofgem. Although a number of revisions have been made to produce the new Modification Proposal 0044, BGT did not believe that this addressed all the issues and as such did not provide a satisfactory basis for amendment of the Uniform Network Code.

*The hurdle for Modification Proposals is that they further the relevant objectives assessed relative to the prevailing UNC arrangements. Neither UNC0042 nor UNC0044 address all the points covered by the Ofgem decision letter on UNC0021.*

### **Credit**

EDF commented, “It is worth noting that Shippers have strict credit limits in place which restrict the amount of value and counterparties they may trade with in the market. For Transco to assume that shippers can avoid penal cashout prices by trading themselves out of an emergency is unrealistic in practise.”

SSE noted “a ‘sudden’ GDE could occur at anytime, rather than ‘conveniently’ within the banking day (when additional credit may be available). At such a time the effect of Modification Proposal 044 would, in our view, be to ‘dry-up’ the gas market by virtue of its ‘destruction’ of the available credit. This cannot be said to better facilitate the relevant objectives.” SSE continue “Holding additional credit to deal with a 30% out of balance position (where a ‘sudden’ terminal centred GDE has pushed a User into a ‘short’ position) at an extreme SMP Buy price (which could be set on very low volumes of actual gas traded) would be a gross waste of resources which would have to be paid for, ultimately, by end consumers.”

*A User forward contracting for demand response either directly with its own end-consumers or with other Users would mitigate the risk of available credit limiting the ability to trade.*

### **Termination**

EDF commented, “that more penal and extreme dual cashout prices on such a day may actually exacerbate an emergency situation, allow manipulation of the system by different parties, and lead smaller shippers to incur large losses or even bankruptcy.”

SGN “are concerned that proposals could have significant and disproportional financial consequences for some Users, unnecessarily increasing the risk of User termination.” SGN believe concerns regarding potential User termination could actually make it more difficult for participants to trade and balance out their own positions during the early stages of an emergency and before the market is suspended.” SGN “believe the increased risk of User termination created by this proposal is unnecessary and not in the longer-term interests of competition and security of supply.”

### **Withholding Gas**

EDF “do not agree with Ofgem’s view that a single cashout price based on the average of the previous 30 day’s SAP does not sufficiently incentivise shippers to flow extra gas in an emergency and achieve a balance. Indeed, many shippers, and more precisely offshore shippers will be incentivised to flow all or as much gas as they can onto the system to avert an emergency as they will not want only 30 days average SAP for their gas.” EDF “do not believe that any shipper will purposefully or commercially withhold gas on such a day as the consequences of the market being suspended or firm load shedding is not in any market participant’s interest.”

SGN “is concerned that a move to such an extreme system marginal buy price could encourage some Users to withhold gas to ensure they could balance their own position or avoid being short.”

*If the Proposal were to incentivise the majority of Users to be in a position in the long term to “withhold gas to ensure they could balance their own position or avoid being short” then by definition there would be greater supplies available and greater security of supply.*

### **Priority Supply Points**

“TD would also like to seek further clarity regarding the inclusion of interruptible priority sites in the proposed arrangements.”

*Interruptible Priority Supply Points would be interrupted, if required, in the event of a GDE. The legal text makes it clear that Emergency Curtailment will include Interruption and hence Interruption at Interruptible Supply Points. Firm Priority Supply Points are excluded from Emergency Curtailment within the legal text. The calculation of the GSMR Safety Storage Monitor includes Firm Priority Supply Points but excludes Interruptible Priority Supply Points and hence Firm Priority Supply Points are ‘protected by Monitor’ and Interruptible Priority Supply Points are ‘protected by isolation’ within the NEC Safety Case.*

### **Viewing of Imbalances**

SGN noted, “It is not clear whether the User will be able to view their imbalance at any point within the gas day and establish their deemed imbalance position, particularly where Transporters have calculated emergency curtailment quantity adjustments within day.”

SSE commented, “It is not clear whether the User will be able to view their imbalance real time on the NBP screens. SSE noted ” it is not clear how the ECQ title trade will work in terms of the User knowing at any point in time what their imbalance position actually is.” SSE asks, “Where will the NBP trade be posted? How will you be notified?”

*Users will be notified when a GDE is initiated and will receive Emergency Interruption Notices. Users will also be able to view their imbalance position on UKLink via the relevant screens.*

### **Marginal Value of Demand Response**

SSE noted that it is stated in the Urgent Modification Proposal that:- “Transco NTS believes that the cash-out price for Users with a negative Daily Imbalance should reflect the marginal value of demand response.” SSE believe that “It is not clear what the “marginal value of demand response” is” SSE commented, “Those end consumers who are taken off supply on the basis of ‘commercial’ interruption will receive the pre-agreed price (rather than any ‘marginal value’). Under Modification 044 the Firm load that is interrupted receives recompense at 30 Day SAP. How, therefore can a ‘marginal value’ be ascribed to demand response that justifies SMP Buy being applied (to the User) for gas ‘obtained’ from end consumers at 30 Day SAP, particularly when these prices will not feed into the derivation of cashout prices.”

*Setting the Emergency cash-out price for ‘short’ Users to SMP buy would incentivise them to take all actions, including demand response, to remove a short position and hence help to avoid entering a GDE. It is the differential between the amount that a User receives for*



*Emergency Curtailment and the 'short' cash-out exposure that creates the incentive on the User to contract for an initiate demand reduction prior to a GDE. Close to a GDE there may be demand-side offers on the OCM and the highest priced offer accepted by Transco NTS in its role as residual system balancer could be said to be the marginal value of demand response.*

### **Cash-out Price Calculation**

SSE noted, “The legal wording defines emergency curtailment quantity as emergency interruption or firm load shed. It goes on to indicate that the emergency curtailment trade price will equal the 30 day average SAP on the day before the curtailment occurred. However, neither these volumes nor these quantities are used in cashout price derivation. If the emergency curtailment is supposed to be a proxy for demand side bid – why is this not factored into cashout when only interruptible loads are involved? If it doesn’t feed into cashout then what is the point of paying someone for emergency interruption(?), particularly when they can decide whether to sell their additional gas into the market or use it to balance rest of portfolio, given that the volume will be excluded from their prevailing imbalance position?” SSE note that in the Authority’s Decision Letter with respect to Modification Proposal 021 which stated that:- “Cash out prices should reflect the costs incurred by the System Operator in balancing the system – for example, if the system is short overall, the cost of buying gas or demand side response.” SSE commented, “Given that the actual cost of interruption (physical disconnecting end consumers) would be less than the SMP Buy price (if the Proposer’s argument about Modification 044 providing a “financial incentive” is to be believed) it therefore follow that the signals to parties to reflect this actual cost also has to be low (and not set at the SMP Buy).”

*The SME notes that the ECQ trades are not treated as Market Balancing Actions for the purpose of cash-out price determination. Inclusion of the ECQ trade price might reduce SAP in a potential GDE and hence may weaken the incentive to balance prior to a GDE. It is the differential between the amount that a User receives for Emergency Curtailment and the 'short' cash-out exposure that creates the incentive on the User to contract for and initiate demand reduction prior to a GDE. It is the understanding of the SME that the ECQ trade price is a proxy for the lost revenue to the User and not a demand side bid.*

### **Windfall Gains and Losses**

SSE commented “The approach suggested by the Proposer of Modification 044 will result in large amounts of funds flowing to and from parties throughout the market. Such an approach equates to some Users being subject to a windfall loss, whilst others, who took no discernable action to alleviate the GDE, would receive a windfall gain: this is hardly an approach based on a principle of a party being held 'neutral'. It therefore follows that applying such an approach to the gas market would be distortionary and could not, therefore, be said to better facilitate the relevant objectives.”

*The net windfall gain would only be received by those parties that were balanced or long in an emergency and hence while they may have taken “no discernable action to alleviate the GDE” they would at least not have been contributing towards it.*

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

Implementation is not required for this purpose.

**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**

Implementation is not required having regard to any such proposed change.

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

The Proposer has not provided a programme of works.

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

The Proposer has suggested that this Proposal should be implemented by 1 October 2005.

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

No such implications have been identified by the Proposer.

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

At the Modification Panel meeting held on 1 September 2005, of the nine Voting Members present, capable of casting ten votes, two votes were cast in favour of implementing this Modification Proposal. Therefore the Panel did not determine to 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 F - SYSTEM CLEARING, BALANCING CHARGES AND**  
**NEUTRALITY**

*Amend paragraph 4.4.2 to read as follows:*

“4.4.2 “**Aggregate System Receipts**” for a Day.....:

- (a) .....
- (b) .....
- (c) .....
- (d) .....that Day; ~~and~~
- (e) .....that Day; and
- (f) the amounts received by Transco NTS from Users pursuant to Section Q6.2 or Section Q6.3 in respect of Users’ Emergency Curtailment Quantity relating to that Day or any revisions thereto.”

*Amend paragraph 4.4.3 to read as follows:*

“4.4.3 “**Aggregate System Payments**” for a Day.....:

- (a) .....
- (b) .....that Day; ~~and~~
- (c) the amounts payable by Transco NTS to Users pursuant to Section Q6.2 or Section Q6.3 in respect of Users’ Emergency Curtailment Quantity relating to that Day or any revisions thereto”

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT**  
**SECTION G - SUPPLY POINTS**

*Insert the following as new paragraph 1.20:*

**“1.20 Reduction of Offtake at Firm Supply Points**

1.20.1 Where, in relation to any Firm Supply Point (but without prejudice to Section C in relation to Renominations), the Registered User or supplier:

- (a) exercises (other than pursuant to an instruction from a Transporter pursuant to Section Q) any entitlement to require the consumer to discontinue consuming gas offtaken from the Total System on a Day; or
- (b) having exercised such an entitlement, authorises the consumer to resume such consumption

the Registered User will as soon as reasonably practicable, and in accordance with paragraph 1.20.3, inform the Transporter of the matters set out in paragraph 1.20.2, provided that the Registered User shall use reasonable endeavours to inform the

Transporter not more than one hour after such discontinuance and/or not less than one hour before such resumption.

1.20.2 The matters to be informed by the Registered User to the Transporter pursuant to paragraph 1.20.1 are:

- (a) the identity of the Firm Supply Point;
- (b) the time with effect from which the consumer will be required to discontinue, or authorised to resume, consumption; and

an estimate of the amount by which the quantity of gas offtaken will increase or decrease as a result of such discontinuance or resumption.

1.20.3 For the purposes of paragraph 1.20.1 the User will give the relevant information to the Transporter by means of telephone or facsimile, unless it has given to the Transporter not less than one month's notice of its intention to give such information by Batch Transfer Communication, in which case such User will give information to the Transporter for the purposes of paragraph 1.20.1 only by Batch Transfer Communication, and will promptly inform the Transporter by telephone or facsimile of the transmission of each such Batch Transfer Communication.

1.20.4 Where the Transporter notifies a User that it is unable satisfactorily to access a Batch Transfer Communication transmitted pursuant to paragraph 1.20.3, that User will promptly send to the Transporter by facsimile the information contained in that Batch Transfer Communication.”

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT**  
**SECTION Q - EMERGENCIES**

*Amend paragraph 3.4.1 to read as follows:*

- “3.4.1 Where .....
- (a) .....
  - (b) .....
  - (c) .....
  - (d) .....

Where a Transporter has taken Emergency Steps that require the reduction or discontinuance of offtake of gas as set out above, and the Transporter subsequently determines that such reduction or discontinuance of offtake of gas is no longer required or will be no longer required at a certain time, then the Transporter will so notify Users specifying the time (where later than the time of such notification) at which such reduction or discontinuance of offtake of gas is no longer required.

In addition, the provisions of paragraph 6 of this Section Q shall apply following any reduction or discontinuance of offtake of gas pursuant to this paragraph 3.4.1 at any System Exit Point (other than at a System Exit Point which includes an NDM Supply Point Component or at a Priority Supply Point) due to a Network Gas Supply Emergency (other than a Network Gas Supply Emergency Critical Transportation Constraint Emergency).”

*Amend paragraph 3.4.5 to read as follows:*

“3.4.5 The relevant provisions of G6 will apply for the purposes of Interruption in a Gas Supply Emergency (including a Potential Network Gas Emergency) or Local Gas Supply Emergency, except that:

- (a) the Transporter shall not be required to give 5 hours' notice of Interruption but may require Interruption as soon as practicable following the Transporter's Interruption Notice;
- (b) the User may not request an alteration pursuant to Section G 6.8.2 to the Supply Points to be Interrupted;
- (c) any Day or Days of Interruption pursuant to this Section Q shall not count towards the use of the Interruption Allowance under Section G 6.7.5;
- (d) the provisions of Section G 6.9 (other than Section G 6.9.2(a)) in respect of a failure to Interrupt shall not apply.

In addition, the provisions of paragraph 6 of this Section Q shall apply following Interruption in a Network Gas Supply Emergency (including a Potential Network Gas Emergency) (other than a Network Gas Supply Emergency Critical Transportation Constraint Emergency or a Potential Network Gas Supply Emergency Critical Transportation Constraint Emergency).”

*Amend paragraph 4.1.1 to read as follows*

“4.1.1 In respect of each Day or part of a Day during a Network Gas Supply Emergency Gas Deficit Emergency:

- (a) .....
- (b) Section C (other than paragraph 5 thereof) will not apply, except to the extent to which Transco NTS may wish to use the Nomination process as a means for Users to communicate with Transco NTS
- (c) .....
- (d) .....
- (e) .....
- (f) .....
- (g) .....
- (h) .....; and
- (i) the Transporters may by notice to Users suspend the implementation (as respects all Users) of any of the provisions of Section G (other than paragraph 6.6.5 thereof).

*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:



- (a) Transco NTS shall pay to each User who delivered on a Day more gas to the Total System than it offtook 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 on such Day shall pay to Transco NTS an amount determined as the User's Daily Imbalance multiplied by the relevant price.

For the purposes of this paragraph 4.2.2, and pursuant to the provisions of paragraph 6.2.1, a User's Daily Imbalance shall include that User's Emergency Curtailment Quantity."

*Amend paragraph 4.2.3 to read as follows:*

"4.2.3 For the purposes of this paragraph 4.2 the 'relevant price' is:

- (a) the "relevant price" In respect of paragraph 4.2.2 (a) is the System Average Price determined under Section F1.2.1 or F1.2.2; and
- (b) the "relevant price" in respect of paragraph 4.2.2 (b) is the System Marginal Buy Price as determined under Section F1.2.1 (a) ~~the Value of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2~~

In each case but by reference to the 30 days preceding the Day on which the Network Code Gas Supply Emergency Gas Deficit Emergency started"

*Insert the following as new paragraph 6:*

## **6. EMERGENCY CURTAILMENT**

### **6.1 Definitions**

6.1.1 For the purposes of the Code:

- (a) "Emergency Curtailment" means either:
  - (i) Interruption due to a Network Gas Supply Emergency (including a Potential Network Gas Supply Emergency) other than a Network Gas Supply Emergency Critical Transportation Constraint Emergency or a Potential Network Gas Supply Emergency Critical Transportation Constraint Emergency; or
  - (ii) any reduction or discontinuance of offtake of gas pursuant to paragraph 3.4.1 at any System Exit Point (other than at a System Exit Point which includes an NDM Supply Point Component or at a Priority Supply Point) due to a Network Gas Supply Emergency (other than a Network Gas Supply Emergency Critical Transportation Constraint Emergency);
- (b) "Emergency Curtailment Trade Price" means the value (in pence/kWh) of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2 but by reference to the 30 Days preceding the Day on which the Emergency Curtailment occurred; and

(c) “Emergency Curtailment Quantity” means, in respect of a User, the quantity of gas calculated by Transco NTS as being the sum of the aggregate quantities of gas (in kWh) which each Transporter reasonably estimates (based on the information available to it at the time of making such estimate) that User would have offtaken from the relevant Transporter’s System at System Exit Points in respect of which Emergency Curtailment has occurred but for the fact that Emergency Curtailment had occurred at those System Exit Points.

## **6.2 Emergency Curtailment Trade Arrangements**

6.2.1 In the event that Emergency Curtailment occurs, then each User that has an Emergency Curtailment Quantity authorises Transco NTS to make a Disposing Trade Nomination on behalf of the User, and Transco NTS will make a corresponding Acquiring Trade Nomination, in each case for the User’s Emergency Curtailment Quantity.

6.2.2 Transco NTS will pay to each User an amount determined as the User’s Emergency Curtailment Quantity multiplied by the Emergency Curtailment Trade Price.

6.2.3 In the event that further Emergency Curtailment is required in respect of a Day, or Emergency Curtailment that had previously occurred in respect of that Day is removed, then Transco NTS shall calculate a revised Emergency Curtailment Quantity for each User based on any updated estimates provided to it by the Transporters, and:

(a) where the effect is such that a User’s revised Emergency Curtailment Quantity is greater than the User’s previously calculated Emergency Curtailment Quantity, each such User authorises Transco NTS to make a Disposing Trade Nomination on behalf of the User, and Transco NTS will make a corresponding Acquiring Trade Nomination, in each case for the difference between the User’s revised Emergency Curtailment Quantity and the User’s previously calculated Emergency Curtailment Quantity; and

(b) where the effect is such that a User’s revised Emergency Curtailment Quantity is less than the User’s previously calculated Emergency Curtailment Quantity, each such User authorises Transco NTS to make a Acquiring Trade Nomination on behalf of the User, and Transco NTS will make a corresponding Disposing Trade Nomination, in each case for the difference between the User’s previously calculated Emergency Curtailment Quantity and the User’s revised Emergency Curtailment Quantity.

6.2.4 In the circumstances set out in:

(a) paragraph 6.2.3(a), Transco NTS will pay to the User an amount determined as the difference between the User’s revised Emergency Curtailment Quantity and the User’s previously calculated Emergency Curtailment Quantity multiplied by the Emergency Curtailment Trade Price;

(b) paragraph 6.2.3(b), the User will pay to Transco NTS an amount determined as the difference between the User’s previously calculated Emergency Curtailment Quantity and the User’s revised Emergency Curtailment Quantity multiplied by the Emergency Curtailment Trade Price.

- 6.2.5 Transco NTS will not pay Balancing Charges, Balancing Neutrality Charges, Scheduling Charges or Daily Imbalance Charges as a result of Trade Nominations occurring as a result of the operation of paragraphs 6.2.1 or 6.2.3.
- 6.2.6 For the avoidance of doubt, any amounts payable by Transco NTS pursuant to paragraph 6.2.2 or 6.2.4 shall not be included in the calculation of the System Marginal Buy Price, the System Marginal Sell Price or the System Average Price pursuant to Section F1.2 for the Day to which the Emergency Curtailment Quantity relates.
- 6.2.7 Where, following the end of a Day, a User (the "**claimant**") believes that it ought to have had a different Emergency Curtailment Quantity to that determined pursuant to this paragraph 6 and applicable at the end of the Day in question:
- (a) the claimant may, within such time as Transco NTS shall reasonably require, submit to Transco NTS a claim that it ought to have had a different Emergency Curtailment Quantity, together with details of the basis on which it believes it ought to have had a different Emergency Curtailment Quantity;
  - (b) Transco NTS will (in consultation with the UNC Committee) appoint an independent accountant or other appropriately qualified person as "**claims reviewer**" to review each claimant's claim and advise Transco NTS of whether the claim appears to the claims reviewer to be justified and the Emergency Curtailment Quantity which (in the claims reviewer's opinion) the claimant should have had;
  - (c) the claimant shall be required (as a condition to its claim being considered, but subject to the claims reviewer accepting a reasonable obligation of confidence) to provide such information, access to records and cooperation as the claims reviewer shall reasonably require;
  - (d) the fees and costs of the claims reviewer shall be paid by Transco NTS and shall be additional Monthly Adjustment Neutrality Costs for the month in which they are paid;
  - (e) in the event that either the claimant or Transco NTS disagrees with the claims reviewer's decision, it may refer the matter to the Authority, and the Authority may determine either that the claims reviewer's decision was correct or may direct that a different Emergency Curtailment Quantity to that determined by the claims reviewer should be used; and
  - (f) where the claims reviewer advises (or, following a referral by either Transco NTS or the claimant pursuant to paragraph (e), the Authority determines) that the User's Emergency Curtailment Quantity calculated by Transco NTS pursuant to this paragraph 6 was larger or smaller than it ought to have been, then the provisions of paragraph 6.3 shall apply.
- 6.2.8 In respect of any Shared Supply Meter Point, the Registered Users of such Shared Supply Meter Point (or an agent acting on behalf of such Registered Users) shall, not more than one (1) hour after the occurrence of any Emergency Curtailment, notify the relevant Transporter of the proportions in which the relevant Transporter shall allocate between the Registered Users of such Shared Supply Meter Point the

quantity of gas that would have been offtaken at such Shared Supply Meter Point but for any Emergency Curtailment. If no such proportions have been provided, the Transporter shall allocate between the Registered Users of such Shared Supply Meter Point the quantity of gas that would have been offtaken at such Shared Supply Meter Point but for any Emergency Curtailment in proportions based on the Transporter's reasonable estimate of the quantity of gas that each Registered User would have offtaken at the Shared Supply Meter Point but for the Emergency Curtailment.

6.2.9 As soon as reasonably practicable after the end of a Day on which Emergency Curtailment occurred (and in event, not later than 20:00 hours on 4th Day after the Day in question), each Transporter shall notify each User of the proportion of that User's Emergency Curtailment Quantity for that Day that relates to System Exit Points on that Transporter's System, together with the methodology used to calculate such proportion.

### **6.3 Emergency Curtailment Adjustment**

6.3.1 Where the provisions of this paragraph 6.3 apply, then:

- (a) where the User's Emergency Curtailment Adjustment Quantity is positive, Transco NTS will pay the User an amount equal to the User's Emergency Curtailment Adjustment Clearing Charge; and
- (b) where the User's Emergency Curtailment Adjustment Quantity is negative, the User will pay Transco NTS an amount equal to the User's Emergency Curtailment Adjustment Clearing Charge.

6.3.2 For the purposes of this paragraph 6.3:

- (a) in respect of each Day, a User's "**Emergency Curtailment Adjustment Quantity**" is the amount by which the User's Emergency Curtailment Quantity advised by the claims reviewer (or, following a referral by either Transco NTS or the claimant pursuant to paragraph 6.2.7(e), determined by the Authority) differs from the User's Emergency Curtailment Quantity estimated by the Transporters;
- (b) "**Emergency Curtailment Adjustment Clearing Charge**" is an amount equal to the User's Emergency Curtailment Adjustment Quantity multiplied by the Emergency Curtailment Trade Price.

6.3.3 A User's Emergency Curtailment Adjustment Quantity is positive where the User's Emergency Curtailment Quantity advised by the claims reviewer (or determined by the Authority) is greater than the User's Emergency Curtailment Quantity established by the Transporters in accordance with this paragraph 6, and is negative where the User's Emergency Curtailment Quantity established by the Transporters in accordance with this paragraph 6 is greater than the User's Emergency Curtailment Quantity advised by the claims reviewer (or determined by the Authority).

6.3.4 In addition to the amounts payable pursuant to paragraph 6.3.1:

- (a) where the User's Daily Imbalance is positive in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, and the Emergency Curtailment Adjustment Quantity is negative, then Transco NTS shall pay to the User an amount equal to the Emergency Curtailment Adjustment Quantity multiplied by the relevant price (as defined in paragraph 4.2.3(a)) applicable to such Day;
- (b) where the User's Daily Imbalance is positive in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, and the Emergency Curtailment Adjustment Quantity is positive (but is less in magnitude than the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates), then the User shall pay Transco NTS an amount equal to the Emergency Curtailment Adjustment Quantity multiplied by the relevant price (as defined in paragraph 4.2.3(a)) applicable to such Day;
- (c) where the User's Daily Imbalance is positive in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, and the Emergency Curtailment Adjustment Quantity is positive (and is greater in magnitude than the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates), then the User shall pay Transco NTS:

  - (i) an amount equal to the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates multiplied by the relevant price (as defined in paragraph 4.2.3(a)) applicable to such Day; plus
  - (ii) an amount equal to the sum of the Emergency Curtailment Adjustment Quantity less the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, multiplied by the relevant price (as defined in paragraph 4.2.3(b)) applicable to such Day;
- (d) where the User's Daily Imbalance is negative in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, and the Emergency Curtailment Adjustment Quantity is positive, then the User shall pay to Transco an amount equal to the Emergency Curtailment Adjustment Quantity multiplied by the relevant price (as defined in paragraph 4.2.3(b)) applicable to such Day;
- (e) where the User's Daily Imbalance is negative in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, and the Emergency Curtailment Adjustment Quantity is negative (but is less in magnitude than the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates), then Transco NTS shall pay the User an amount equal to the Emergency Curtailment Adjustment Quantity multiplied by the relevant price (as defined in paragraph 4.2.3(b)) applicable to such Day;



- (f) where the User's Daily Imbalance is negative in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, and the Emergency Curtailment Adjustment Quantity is negative (and is greater in magnitude than the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates), then Transco NTS shall pay the User:
- (i) an amount equal to the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates multiplied by the relevant price (as defined in paragraph 4.2.3(b)) applicable to such Day; plus
  - (ii) an amount equal to the sum of the Emergency Curtailment Adjustment Quantity less the User's Daily Imbalance in respect of the Day to which the Emergency Curtailment Adjustment Quantity relates, multiplied by the relevant price (as defined in paragraph 4.2.3(a)) applicable to such Day.

**UNIFORM NETWORK CODE - OFFTAKE ARRANGEMENTS DOCUMENT**  
**SECTION C - SAFETY AND EMERGENCY**

*Insert the following as new paragraphs 2.7.5 and 2.7.6:*

- “2.7.5 In the event of Emergency Curtailment occurring in respect of a Day, each DNO shall provide Transco NTS as soon as reasonably practicable with the DNO's best estimate of the aggregate quantity of gas (in kWh) that each User would have offtaken during that Day from each LDZ at System Exit Points in respect of which Emergency Curtailment has occurred but for the fact that Emergency Curtailment had occurred at those System Exit Points.
- 2.7.6 In the event that further Emergency Curtailment is required in respect of a Day, or Emergency Curtailment that had previously occurred in respect of that Day is removed, then the relevant DNO shall provide Transco NTS as soon as reasonably practicable with the DNO's best revised estimate of the aggregate quantity of gas (in kWh) that each User would have offtaken in that Day from each LDZ at System Exit Points in respect of which Emergency Curtailment has occurred but for the fact that Emergency Curtailment had occurred at those System Exit Points.”

Subject Matter Expert sign off:

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

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive Office, Joint Office of Gas Transporters**

Signature:

Date :