

Modification Report
Gas Allocations at LNG Storage Facilities in the Event of a Network Gas Supply
Emergency

Modification Reference Number 0072

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 a request to curtail storage may be issued in order to mitigate a potential Network Gas Supply Emergency (NGSE), rather than only when one has been declared. Ofgem considers that this increases the possibility of these provisions being called upon during the peak demand periods of this winter. Ofgem considers that if the proposed modification were treated as non-urgent, there may be insufficient time for this proposal to be decided upon and implemented ahead of those peak demand periods, potential having an adverse affect upon the security of the supply of gas. Furthermore, Ofgem is concerned that if storage withdrawals were to be curtailed under the prevailing arrangements, there is a likelihood of a significant commercial impact upon storage users in particular.

This was in response to National Grid LNG Storage request for Urgent status "on the basis that it believes the UNC will not cause the correct amounts of gas to be allocated to Users at LNG Facilities in the event that the NEC request Storage Operators to curtail storage withdrawals.

This Proposal should be implemented prior to the Winter 2005/06 peak demand periods, in order to ensure that Users allocated gas in accordance with their nominations (up to the point in the Gas Day in which storage withdrawals are curtailed) and not according to their stock level."

Procedures Followed:

The procedures agreed with Ofgem for this Proposal are:

Action	Due Date
Submit proposal to Ofgem for Urgency	13/12/05
Ofgem grant Urgent status	14/12/05
Discuss at Workstream	14/12/05
Proposal issued for consultation	15/12/05
Closeout for representations	30/12/05
Modification report issued to panel	04/01/06
Modification panel recommendation	05/01/06
Ofgem decision expected week commencing	09/01/06

1. The Modification Proposal

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

Following the removal of the “Top Up” regime and the introduction of the concept of Safety Monitors* at Storage Facilities* to protect domestic consumers’ gas supplies in the event of a 1 in 50 winter, the NEC now has powers to request a reduction of flows from Storage Facilities in a Potential Network Gas Supply Emergency* in order to protect the Safety Monitors.

Section Z of the UNC does not anticipate this scenario and assumes that an increase in flows would be required in an emergency. It requires LNG Storage to allocate gas in proportion to customer stocks, this could result in Users* who did not nominate on the day being allocated gas (including OM and SIU Managers) and those Users with nominations receiving less gas than they would otherwise have anticipated. It is proposed that the UNC be modified so that in the event of the NEC* requesting LNG Storage to reduce flows during a Network Gas Supply Emergency* (including a Potential Network Gas Supply Emergency*) (as defined in Section Q of the UNC), gas is allocated according to Users’ nominations for that gas day.

The Proposal

The aim of this Proposal is to ensure that on a day where the NEC request National Grid LNG Storage* to cease or reduce flows from its Storage Facilities, Storage Users* are allocated gas according to the amount of gas they have nominated for delivery to the NTS at the point in the Gas Day* when the curtailment became effective rather than in accordance with their Gas in store for that Day.

The following would apply:

Gas Delivered = Σ implied withdrawal rate * relevant curtailment period

Where “implied withdrawal rate” has the meaning in paragraph Z6.2.5(b) of the UNC and “relevant curtailment period” is the period in hours from the time the relevant storage withdrawal nomination become effective until either (i) the time when a further relevant storage withdrawal nomination become effective or (ii) an instruction by the NEC to cease flowing becomes effective.

In the event that the NEC* requests National Grid LNG Storage* to reduce flows rather than cease altogether (for example if Constrained LNG* was being used on that day), then flows after the time at which the curtailment became effective would be allocated pro-rata to nominations effective at that time for each National Grid LNG Storage Facility*. This would only apply on the first day of a Network Gas Supply Emergency (including a Potential Gas Supply Emergency)*

For the avoidance of doubt, where the NEC request National Grid LNG Storage to increase flows the existing provisions would remain.

Example 1:

User A has 100 units of gas in store and a nomination effective from 06:00 of 30

User B has 200 units of gas in store and has not nominated for this Gas Day

The NEC declares a Potential Network Gas Supply Emergency and requires LNG Storage to cease flowing at 18:00.

Total gas flowed = 15 units

	Current UNC Allocation	Proposed Allocation
User A	5 units	15 units
User B	10 units	0 units

Example 2:

User A has 100 units of gas in store and a nomination effective from 06:00 of 30

User B has 200 units of gas in store and nominates 12 from 12:00

The NEC declares a Potential Network Gas Supply Emergency and requires LNG Storage to cease flowing at 18:00.

Total gas flowed = 18

	Current UNC Allocation	Proposed Allocation
User A	6 units	15 units
User B	12 units	3 units

Section Z of the UNC would also be amended to remove any ambiguity as to when the emergency provisions apply.

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

The Proposer considered that "this Proposal, if implemented, may better facilitate the following relevant objective as set out in our GT Licence:

In respect of paragraph 1.a): National Grid LNG Storage considers that this Proposal may improve *“the efficient and economic operation of the pipe-line system”* by ensuring gas is allocated to those Users who have placed nominations and thus reducing additional costs (from Imbalance charges and Entry Capacity Overrun Charges*) to the Community above those which would be expected from a curtailment of flows.

In respect of paragraph 1.d): National Grid LNG Storage considers that this Proposal might improve *“the securing of effective competition between relevant shippers”* by allocating gas between Users in a manner which is not unduly discriminatory."

Similarly, E.ON suggested that *“this proposal better facilitates the relevant objective A.11.1 (d) the securing of effective competition between relevant shippers, through ensuring gas is appropriately allocated to Users, based on their nominations, where steps are taken to decrease flow rates at a NG LNG Storage Facility in a Potential or actual Network Gas Supply Emergency. This will consequently ensure that Users are not allocated gas in a manner, which is not unduly discriminatory”*.

NGUKD also believed *“implementation would be consistent with National Grid’s licence obligation to promote competition between shippers and suppliers by ensuring that deliveries on a day when enforced curtailment is in effect are fair, predictable and transparent in their derivation, thereby ensuring that associated costs are allocated appropriately. Accordingly, Distribution agree with the proposer’s view that*

implementation would be consistent with requirements of Standard Special Condition A11.1(d) of their gas transporter's licence."

NGUKT stated that *"the Proposal, if implemented, will better facilitate the relevant objectives of our GT Licence by ensuring gas is allocated only to those Users who have placed nominations at that storage facility and thus reducing additional costs (from Imbalance charges and Entry Capacity Overrun Charges) to the Community above those which would be expected from a curtailment of flows and by allocating gas between users in a manner that is not unduly discriminatory"*

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

No representation specifically addressed these implications. However, EDFE's comments that implementation would remove a current *"perverse incentive"* might assist in maintaining adequate storage stocks and consequently benefit security of supply.

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

a) implications for operation of the System:

NGLNG considered that the implementation *"should reduce the role of the residual balancer by providing greater certainty of allocation for Users on a day when Safety Monitors are reached."*

b) development and capital cost and operating cost implications:

No such costs have been identified.

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

No such costs have been identified.

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 consequence has 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

No such implications have been identified.

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

NGLNG suggested that implementation *"should reduce contractual risk for Users by ensuring allocations are in line with nominations (as far as is possible). Users would not*

be allocated in excess of their nomination and hence the risk of incurring an Entry Capacity Overrun Charge is not increased."

STUK stated that currently if *"during a potential or actual emergency the NEC curtails withdrawals from storage, shippers that had nominated to withdrawal will face a shortage in their portfolios and exposure to penalty charges."* In addition, STUK pointed out that allocating *"gas to storage users according to storage stocks and not allocations could result in users being allocated gas that they have no use for leaving them with an imbalance and again exposed to penalty charges."* From this, STUK concluded that implementation *"would help to eliminate the risk of shipper imbalance caused by the allocation of storage stocks following NEC storage withdrawal curtailment."*

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

In its role of a Storage Operator, NGLNG suggested that implementation would provide *"clarity for ourselves as to the circumstances in which paragraph Z6.7.1 should be applied."*

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.

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

The Proposer indicated the following advantage:-

"The proposal will ensure Users are allocated as far as possible in accordance with the gas they have nominated for delivery when the NEC instructs National Grid LNG Storage to curtail flows in a Potential Network Gas Supply Emergency."

Several of the responses summarised above, in respect of implementation better facilitating the relevant objectives and in reducing the level of contractual risk, provide support to this statement.

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 the following:

British Gas Trading Limited	BGT	In Support
EDF Energy	EDFE	In Support
E.ON UK plc	E.ON	In Support
National Grid LNG Storage	NGLNG	In Support
National Grid Gas plc (UK Distribution)	NGUKT	In Support
National Grid Gas plc (UK Transmission)	NGUKD	In Support
RWE npower plc	RWE	In Support
Scotia Gas Networks	SGN	Not in Support
Scottish and Southern Energy plc	SSE	In Support
Statoil (UK) Ltd	STUK	In Support

BGT supported implementation and stated that currently the UNC "*would require the allocation of gas under an emergency to be related solely to a Users inventory. With the introduction of the ability of the NEC to reduce or curtail flows from storage facilities, it would clearly be inappropriate not to take account of a Users intent to flow volumes of gas, as indicated in their nominations. This Modification Proposal would facilitate the flows at the curtailed rates up to the level of nominations and only then would revert to any additional volumes being allocated in proportion to stock.*" BGT also state "*A number of changes to the regime governing the use of storage have been effected by Modification Proposals implemented over the last few weeks. We recognise that Modification Proposal 0072 has been raised by National Grid in order to bring existing methodology for allocation of gas into line with these amendments*".

NGUKD supported implementation and stated that, "*the proposed arrangement represents a practical and pragmatic resolution to an issue not envisaged when the original Network Code was drafted, that is, how to deal with allocations for shippers with gas in store where the physical storage delivery is curtailed under instruction from the NEC. We believe it would not be appropriate to allocate a gas delivery to a party, where that party had no intention of delivering on the day the instruction was in effect, and believe it is wholly appropriate to allocate the delivery between those shippers that had nominated a delivery on the affected day*".

NGUKT also supported implementation and stated that "*the Proposal will provide a potential benefit to security of the system in that gas held within the LNG storage facilities for Operating Margins will not be automatically allocated as having been withdrawn from storage in the event of a curtailment by the NEC*".

EDFE supported implementation as it would "*remove a perverse incentive that exists in section Z of the UNC with the introduction of Storage safety monitors in the Safety Case.*"

RWE believed that implementation would correct "*an obvious anomaly relating to LNG flow apportionment during storage curtailment which has existed since the removal of Top Up.*"

SSE believed that implementation would ensure, "*that when the NEC instructs NG LNG to curtail flows in a Potential & Actual Network Gas Supply Emergency, Users are allocated as far as possible in accordance with the gas they have nominated for delivery and not according to their stock levels.*"

STUK supported implementation and stated that *"if there is any gas available to be withdrawn following curtailment it should be allocated, to those shippers with withdrawal nominations in place to help them balance their portfolios, rather than according to users gas stocks."*

In addition to the representations summarised above, the following issue was raised:

SIU Allocation

SGN summarised the operation of SIUs, which are remote and rely on LNG withdrawals from Glenmavis.

SGN stated that *"In the event that LNG supplies are constrained to the SIUs, several thousand domestic customers would be curtailed from gas supplies as soon as local stocks are utilized. This could be only a matter of a small number of days."*

NTS have advised that the NEC would continue to allow gas withdrawals for the SIUs in the event of a storage monitor breach in order to ensure that domestic customers continue to have gas supplies".

SGN, however, stated that the proposed legal drafting *"does not make it clear that SIUs will continue to be given their full allocation of LNG and will not be curtailed in the same way as other storage users. This is an important point as, whilst the NEC will allow the SIUs to take their full allocation of gas, we need to ensure that the commercial regime can account for this."* SGN considered that it might *"be possible to deal with this in the legal drafting by specifically excluding the SIUs from the allocations methodology, albeit this will need the support of the Panel and Ofgem."* and stated that without changes to the legal drafting SGN would *"not support the proposed modification as it does not provide the assurances that we require for the SIU customers. Unless the SIUs are protected then SGN does not believe that the modification will facilitate improved efficient use of the system or improve system safety."*

NGLNG recognised *"that there may be some circumstances in which this proposal does not perfectly allocate gas between parties, especially in unusual circumstances, such as those which apply to the Scottish Independent Networks where LNG is delivered into tankers rather than the NTS. However we still consider this proposal represents an improvement over the current arrangements and consider that, for this winter, such issues can be resolved via discussions with the NEC."*

The SME notes that the current Modification Rules only allow changes to the legal text after consultation has commenced where such text is inconsistent with the Proposal or unclear.

In addition, the SME notes that the decision to curtail withdrawals of storage stocks in order to maintain supplies to SIUs would be taken by the NEC independently of the terms of the UNC and that physical supplies to SIUs are not affected by this Proposal.

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

No such requirements have been identified.

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

No such requirements have been identified.

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

No programme for works has been identified.

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

The Proposer has suggested that this Proposal could be implemented immediately following approval,

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

No such implications have been identified.

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

At the Modification Panel Meeting held on 5 January 2006, of the 9 Voting Members present, capable of casting 9 votes, 5 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel 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 Z - NATIONAL GRID LNG STORAGE FACILITIES

Amend paragraph 6.7.1 to read as follows:

"6.7.1 On any Day during a Network Gas Supply Emergency (including a Potential Network Gas Supply Emergency), National Grid LNG Storage may take steps to increase and/or decrease (as the case may be) the flow rates at a National Grid LNG Storage Facility in order to comply with requests from the NEC (either directly or indirectly) or to comply with directions from National Grid NTS instructions pursuant to Section Q3.3.3, in each case notwithstanding Users' Nominations in respect of such Day,~~;~~ ~~and where~~ Where National Grid LNG Storage takes such steps, then:

- (a) where the steps taken are to increase the flow rates at a National Grid LNG Storage Facility, the aggregate quantity withdrawn from that National Grid LNG Storage Facility on such Day will be apportioned between Users in the proportions in which they have gas-in-storage on such Day; and
- (b) where the steps are to decrease in the flow rates at a National Grid LNG Storage Facility, each User will be deemed to have withdrawn a quantity on such Day calculated as follows:

$$\underline{A + B + C}$$

Where:

A is an amount calculated as:

$$\underline{\Sigma IDR * RCP}$$

IDR is the implied withdrawal rate in relation to a Storage Withdrawal Nomination or Renomination (other than a Storage Withdrawal Nomination or Renomination which related to the withdrawal of LNG from the facility in question for loading onto road tankers) of the User which became effective on the Day in question prior to the time at which the request from the NEC (either directly or indirectly) to decrease the flow rates at the relevant National Grid LNG Storage Facility became effective for the Day in question;

RCP is the period (in hours) from the time that the Storage Withdrawal Nomination or Renomination in question became effective until either (i) the time when a further Storage Withdrawal Nomination or Renomination became effective or (ii) the time at which the request from the NEC (either directly or indirectly) to decrease the flow rates at the relevant National Grid LNG Storage Facility became effective for the Day in question;

B is an amount calculated as:

$$\underline{(NECQ / 24) * HD * (FIDR / TFIDR)}$$

NECQ is the end of Day quantity which the NEC instructs the Storage Operator to flow on the Day in question (excluding any amount which has been or is to be withdrawn from the facility in question for loading as LNG onto road tankers);

HD is the number of hours remaining in the Day in question following the time at which the request from the NEC (either directly or indirectly) to decrease the flow rates at the relevant National Grid LNG Storage Facility became effective for the Day in question;

FIDR is the implied withdrawal rate in relation to the User's Storage Withdrawal Nomination or Renomination which was effective on the Day in question immediately prior to the time at which the request from the NEC (either directly or indirectly) to decrease the flow rates at the relevant National Grid LNG Storage Facility became effective for the Day in question;

TFIDR is the aggregate implied withdrawal rate in relation to all Users' Storage Withdrawal Nominations or Renominations which were effective on the Day in question immediately prior to the time at which the request from the NEC (either directly or indirectly) to decrease the flow rates at the relevant National Grid LNG Storage Facility became effective for the Day in question;

C is an amount equal to the quantity withdrawn by the User from the facility in question for loading as LNG onto road tankers on the day in question.”

Subject Matter Expert sign off:

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

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :