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Dear Colleague

Modification proposal 082 “Clarificatory revisions to UNC Section Q – Emergencies”

Ofgem¹ has considered the issues raised in the modification report in respect of Uniform Network Code (UNC) modification proposal 082 “Clarificatory revisions to UNC Section Q – Emergencies” and, having regard to the principal objective and statutory duties of the Authority², has decided to direct relevant gas transporters to implement modification proposal 082.

Ofgem considers that modification proposal 082 would better facilitate the achievement of the relevant objectives of the UNC, as set out under Standard Special Condition A11³ of the relevant gas transporters’ licences, as compared with the existing provisions of the UNC.

In this letter, Ofgem explains the background to modification proposal 082 and outlines the reasons for its decision.

Background

In the lead-up to winter 2005/06, two modification proposals, which both sought to impact on Section Q of the UNC, were considered by market participants – UNC Modification Proposals 035 and 044⁴. Section Q of the UNC outlines the arrangements which apply during emergency circumstances. Discussions undertaken in the UNC Transmission workstream regarding these modification proposals highlighted the potential for ambiguity between Section Q and other statutory obligations contained within the Network Emergency Coordinator (NEC) Safety Case, the Gas Safety (Management) Regulations (GS(M)R) and NG NTS’s

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The term ‘Ofgem’ and ‘the Authority’ are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended.

³ This Licence Condition can be viewed at:

http://62.173.69.60/document_fetch.php?documentid=6547

⁴ UNC modification proposal 035 “Revisions to Section Q to facilitate the revised NEC Safety Case” and UNC modification proposal 044 “Revised Emergency Cash-out & Curtailment Arrangements”. Ofgem rejected modification proposal 035 on 16 November 2005. However, Ofgem directed the implementation of modification proposal 044 in its decision letter of 16 September 2005. These decision letters can be found at www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/gasgovernance.

Emergency Procedure E1⁵. NG NTS gave an undertaking that it would, in conjunction with the UNC Transmission (and Distribution) workstreams, undertake a review of Section Q with the objective of clarifying any potential ambiguity.

Modification proposal 082

Modification proposal 082 “Clarificatory revisions to UNC Section Q – Emergencies” was raised by NG NTS on 12 April 2006 following NG NTS’s review of Section Q and the discussions at the UNC workstreams referred to above.

This proposal seeks to clarify or simplify various definitions and processes contained within Section Q. The proposed changes are split into three areas as summarised in the following sections.

Changes following Modification Proposal 035

- ◆ Clarification that the Network Emergency Coordinator (NEC) might declare individual, sequential Emergency Stages, or, a number of Emergency Stages together;
- ◆ Clarification of the relationship and roles of Transporters and Distribution Networks in the event of a requirement for demand-side reduction; and
- ◆ Clarification that trade nominations completed prior to the suspension of the On-the-day Commodity Market (OCM) will be included within Users’ imbalance positions.

Changes following Modification Proposal 044

- ◆ Clarification of “relevant buy price” and “relevant sell price” definitions.

Minor drafting amendments to Section Q

- ◆ Revisions to UNC definitions including removal of the term “Potential” that applied to Stage 1 to remove the possibility of confusion;
- ◆ Re-ordering of various subsections to ensure Section Q is aligned to the Emergency Procedure E1; and
- ◆ Clarification of the exact roles, responsibilities and linkages between various parties in the event of an emergency.

Respondents’ views

This section is intended to summarise the principal themes of the respondents’ views and is not intended to provide a comprehensive overview of the responses received. Respondents’ views can be found in full on the Gas Transporters Information Service⁶.

⁵ The GS(M)R apply to the conveyance of natural gas through pipes to domestic and other consumers. GSMR requires gas conveyors to prepare a safety case containing the information required by Schedule 1 of the Regulations and have it formally accepted by the HSE before conveying gas. Where more than one business is conveying gas in the network a Network Emergency Co-ordinator (NEC) must be appointed. The NEC also has to prepare a safety case containing the information specified in Schedule 2 of the Regulations and have it accepted by HSE. The NEC safety case is primarily concerned with establishing adequate arrangements for co-ordinating the actions of a number of conveyors to prevent a supply emergency and for managing such an emergency should one occur.

⁶ <https://gtis.gasgovernance.com>

Five responses were received in relation to modification proposal 082. All respondents supported implementation of the proposal.

Respondents were in favour of the proposed changes, as they considered that the revisions provide additional clarity in relation to the processes to be followed under Section Q in gas emergency circumstances. Two of the respondents considered that the proposal enhances the understanding of the arrangements and processes set out in Section Q. One respondent noted that the structure of Section Q will be better aligned with other emergency procedures as a consequence of implementation of modification proposal 082.

Two of the respondents considered that the proposal should be implemented ahead of winter 2006/07. None of the respondents noted a preference for delaying the implementation of the proposal.

Panel recommendation

At the Modification Panel meeting held on 15 June 2006, of the ten voting members present, capable of casting ten votes, ten votes were cast in favour of implementing modification proposal 082. Therefore the Panel recommended the implementation of this proposal.

Ofgem's views

In deciding whether modification proposal 082 would better facilitate the achievement of the relevant objectives of the UNC as set out in Standard Special Condition A11 of the relevant gas transporters' licences, Ofgem has carefully considered the views of respondents and the Panel. Ofgem considers that modification proposal 082 would better facilitate the achievement of the relevant objectives set out in Standard Special Condition A11 compared to the existing provisions of the UNC. Ofgem also considers that this would be consistent with its wider statutory duties.

Ofgem considers that the modification proposal impacts on facilitation of relevant objectives (a) and (c)⁷ most significantly and we set out below the reasons why we believe that the proposal would better facilitate these objectives.

Relevant Objective (a) – the efficient and economic operation of the pipe-line system to which this licence relates

Ofgem agrees with respondents that, by adding greater clarity to the processes, roles and responsibilities of all participants in a gas emergency, modification proposal 082 will help to ensure that parties have a clearer understanding of the arrangements which apply during emergency conditions. We agree that by providing this additional clarity, modification proposal 082 should aid the efficient and economic operation of the system in these circumstances. Therefore, Ofgem considers that modification proposal 082 will better facilitate the achievement of relevant objective (a).

⁷ The relevant objectives are sub-paragraphs of paragraph 1 of Standard Special Condition A11 but are referred to in this document as paragraphs (other than in the text of a relevant objective) for convenience.

Relevant Objective (c) – so far as is consistent with sub-paragraphs (a) and (b⁸), the efficient discharge of the licensee's obligations under this licence

Ofgem also considers that the additional clarity provided by modification proposal 082 in relation to the roles and responsibilities of all parties, including NG NTS, should enhance its ability to comply with the obligations of its gas transporters licence. Therefore, Ofgem considers that modification proposal 082 will better facilitate the achievement of relevant objective (c).

Ofgem's decision

For the reasons outlined above, Ofgem has decided to accept modification proposal 082.

If you wish to discuss any aspect of this letter, Clare Sibly (telephone 020 7901 7436) would be pleased to assist.

Yours sincerely



Stephen Smith
Managing Director, Markets

⁸ Relevant Objective (b) – so far as is consistent with (a), the co-ordinated, efficient and economical operation of (i) the combined pipeline system and/or (ii) the pipe line system of one or more other relevant gas transporters.