Modification Report
Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology
Modification Reference Number 0098

Version 3.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

Proposal 0098 was as follows:

"In Ofgem's decision letter to UNC Modification Proposal 044, it is stated that Ofgem see merit in the inclusion of a single ECQ methodology for all relevant transporters, within the Unified Network Code (UNC). This is what this proposal seeks to establish.

A common methodology, placed within the UNC and adopted by all transporters will guard against unnecessary fragmentation and make available a clear and consistent approach, providing greater certainty in the event of a Potential Gas Deficit Emergency or an actual Gas Deficit Emergency (GDE).

As a matter of principle, substantive commercial terms ought to be set out in a document that can be subject to the full jurisdiction of the code governance process.

We propose the following sequential steps for transporters to follow when calculating a User's ECQ, based on the revised ECQ Calculation Methodology, as agreed between National Grid Gas (NTS) and the Distribution Network Operators.

This proposal adds a further step to the methodology agreed by the transporters, in proposing that, where OPNs are unavailable, Nominations can also be used to calculate ECQs for day one of an emergency only. Through taking account of nominations on day one only of an emergency, the concern expressed by NGG NTS of zero nominations being submitted for day 2 of an 'interruption period' becomes obsolete. Including nominations within the sequential steps taken by transporters on day one of an emergency will ensure that transporters receive the most accurate information, which may be made available to them to calculate ECQs.

The process outlined within this proposal will give both Users and transporters sufficient confidence that the ECQ methodology will give an accurate as possible estimate of the associated quantities of gas, providing a better representation of individual portfolio positions and, consequently, representation of the system as a whole.

Methodology

The ECQ calculation methodology has defined steps that will be used to derive an ECQ estimate for the relevant Gas Day for which a site has been subject to Emergency Curtailment as defined in section Q.6.1.1 of the Uniform Network Code.

For the 1st Gas Day the estimate of the ECQ will be based on:

i) For those relevant System Exit Points for which OPNs are provided to the Transporter the estimate will be based on the OPN prevailing at the time of the emergency curtailment;

ii) Where no OPN is available and a Nomination has been submitted, the estimate will be based on the Nomination prevailing at the time of the emergency curtailment;

iii) For those relevant System Exit Points that do not provide OPNs, or OPNs are not available; the estimate will be based on historical allocations;

iv) Where OPNs, Nominations or historical allocations are unavailable, the estimate will be based on either scaled SOQs (where available) or, if unavailable, standard SOQs.

OPN Calculation Method

The following table represents the process for calculating the System Exit Point component of the Emergency Curtailment Quantity from an Offtake Profile Notice (OPN).

OPN Quantity Calculation Process	Curtailment on the first Gas Day of a GDE
Bi-directional System Points (European Interconnector and Storage sites)	The quantity will be calculated as the User's operational nomination provided by the interconnector or storage agent.
VLDMC System Exit Points	At single User System Exit Points the quantity calculation would be based solely on the Offtake Profile Notice (OPN) for the relevant gas day. At multi-User System Exit Points the agent would provide a default division of the quantity implied by the OPN.

Nomination Calculation Method

The following algorithm calculates an estimate of the ECQ Supply Point component from the prevailing nomination data at the time the ECQ estimate is made.

Repeat the following steps for each curtailed supply point:

1 Get the nominated quantity (kWh) for this site for the relevant Gas Day

2 Multiply the nominated quantity by the curtailment duration and divide by 24.

For the avoidance of doubt, the implied Nomination Flow Rate is the rate (in kWh/hour) determined as the nominated quantity applied for the curtailment duration, divided by 24.

For the 2nd and subsequent Gas Day(s) the ECQ for all System Exit Points will be based on:

v) Historical allocations for all relevant System Exit Points; or;

vi) Where historical allocations are not available for a relevant System Exit Point, the estimate will be based on either scaled SOQs (where available) or, standard SOQs.

Curtailment Duration

Curtailment will be assumed to have been initiated at the relevant Supply Point at a time after the time of the Emergency Interruption Notice or Firm Load shedding direction; this will be the Curtailment start time for the purposes of calculating the Curtailment duration. The lead-time between the Curtailment notice and the Curtailment start time will be based on information provided from the site along with other information available to the Transporter including operational experience. If no restoration time is provided then the Curtailment duration will be calculated from the Curtailment time up until the end of the relevant Gas Day. This is the curtailment duration.

Further Curtailment

Should further Emergency Curtailment be required within the relevant Gas Day then each relevant Transporter will calculate a revised (i.e. increased) ECQ element. National Grid NTS will initiate further ECQ trades to reflect any changes in the ECQs.

Restoration

Should the offtake of gas be restored at System Exit Points where Emergency Curtailment had earlier been initiated within the relevant Gas Day then each relevant Transporter would calculate a revised (i.e. reduced) ECQ element based on the revised restoration time. National Grid NTS will initiate further ECQ trades to reflect any changes in the ECQs.

Subsequent days of an Emergency

This methodology will be applied separately for each day of a GDE. The list of relevant System Exit Points for each day of the GDE may be the same or may be different due to restoration and further curtailment notices.

Historical allocation calculation method

The following algorithm estimates the ECQ Supply Point component from historical allocation data.

Step 1

Identify whether Curtailment occurred during the last 28 days and note which days were curtailed.

Repeat the following steps for each curtailed Supply Point

Step 2

Identify relevant Gas Day…

If Curtailment did not occur on D-7, use D-7 otherwise…

If Curtailment did not occur on D-14, use D-14 otherwise…

If Curtailment did not occur on D-21, use D-21 otherwise…

If Curtailment did not occur on D-28, use D-28 otherwise…

Start at D-8 and work backwards to D-28 until a gas day is found where Curtailment did not occur.

If all days are curtailed, do not set estimate of curtailment using this method.

Step 3

Having identified which day is to be used, get the allocated quantity (kWh) for this site for the relevant Gas Day.

Step 4

Multiply the allocated quantity by the curtailment duration and divide by 24.

4. SOQ (scaled)

The following algorithm calculates an estimate of the ECQ Supply Point component from the Flexi-SOQ.

Repeat the following for each curtailed Supply Point

Step 1

Obtain Flexi-SOQ for the relevant System Exit Points.

The Flexi-SOQ is calculated from a Scaling Ratio (SR) that allows for forecast demand to be less than the 1-in-20 peak forecast demand i.e. the Registered Supply Point Capacity. The Ratio is calculated from the aggregated forecast demand divided by the aggregated Registered Supply Point Capacity, i.e. the SOQ, for the relevant System Exit Points.

SOQi ~ Supply Point Offtake Quantity at Exit Point i (kWh)

Flexi-SOQ ~ Flexi Supply Point Offtake Quantity at Exit Point i (kWh)

SRj ~ Scaling Ratio for LDZ j (-)

SRj = (Aggregate Forecast Demand for all relevant System Exit Points) / (Sum of RSPC for all relevant System Exit Points)

Flexi- SOQi = SRi * SOQi

Step 2

Calculate an estimate…

CDi ~ Curtailment Duration at Exit Point i (hours)

ECQij ~ Emergency Curtailment Quantity component for Exit Point i in LDZ j(kWh)

ECQij = Flexi- SOQi * (CDi/24)

Supply Point Offtake Quantity (Registered Capacity) ~ SOQ

The following algorithm calculates an estimate of the ECQ Supply Point component from the SOQ.

Repeat the following for each curtailed Supply Point

Step 1

Obtain Registered Supply Point Capacity for the relevant System Exit Point.

RSPCi ~ Registered Supply Point Capacity at Exit Point i (kWh)

Step 2

Calculate estimate…

CDi ~ Curtailment Duration at Exit Point i (hours)

ECQi ~ Emergency Curtailment Quantity component for Exit Point i (kWh)

ECQi = RSPCi * (CDi/24)

Shared Supply Meter Points

For non VLDMC Shared Supply Meter Points, the Users (or agent on behalf of the Users) can provide a User allocation method, on notification of a relevant Emergency, which applies unless Users have called User "interruption". If no User allocation method is available a Transporter derived ECQ element would be used e.g. historical allocation.

For VLDMC Shared Supply Meter Points, the Users (or agent on behalf of the Users) can provide an allocation method, on notification of a relevant Emergency, which applies unless Users have called User "interruption". If no User allocation method is available, a Transporter derived ECQ element would be used e.g. historical allocation.

Information Flow

The UNC places an obligation on all relevant Transporters to calculate the ECQ component for each relevant System Exit Point and pass the data, aggregated by User, on to National Grid NTS. Each Transporter will aim to provide its element of a User's ECQ to National Grid NTS in its role as residual system balancer, as soon as is reasonably practicable after Curtailment has been initiated. The residual system balancer would be responsible for collating and aggregating the ECQ elements from all Transporters, generating the trade price and initiating the trades, based on the aggregated Transporter ECQ components, and calculating the trade payments. Payments will be made via xoserve. National Grid NTS will endeavour to enter the ECQ trade as soon as reasonably practicable after Curtailment has been initiated and will update the quantity as each Transporters' component of the ECQ becomes available.

Impact and Notification of User "Interruption"

A User should notify the Transporter of User "interruption" only if the Supply Point 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 "interruption" should be covered by a P70.

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 System Exit Point under other contractual arrangements such as the purchase of gas by the end-consumer. If a Supply Point was subject to an operationally validated P70 notification, prior to the time of the Curtailment notice sent under the powers of the NEC, then the ECQ component will be set to zero.

Consequences of not implementing this Modification Proposal (0098)

If this proposal is not implemented, then the ECQ methodology can only be changed by transporters. Through including the ECQ Methodology within the UNC, a level playing field is established, to allow those directly affected by the ECQ calculation to influence the methodology used, as appropriate.

Incorporating the uniform methodology for calculating ECQ within the Code ensures that any proposed changes to the methodology are progressed through an established governance process, promoting certainty and transparency. To do otherwise would run the risk that changes to the methodology might be made at times of system stress or all or a selection of transporters may chose not to follow the sequential steps, jeopardising certainty at times when it is of the utmost importance to the system to minimise the duration of an emergency.

The set process proposed should limit the number of potential claims, once the system is restored after an emergency, through ensuring a more accurate representation of a User's ECQ and consequently, the balance of the system as a whole."

Alternative Proposal 0098a was as follows:

"The purpose of the proposal is to include the methodology, as defined in version 1.1, with the UNC governance arrangements. The entire methodology would not be drafted into the UNC but it would be referenced as a UNC ancillary document. As such, changes would be placed under the oversight of the UNC committee, with recourse to modification procedure if the committee could not make determination. For the avoidance of doubt, it is proposed that, at any stage of the change process, any UNC party could propose a change to the methodology using either the committee route or the modification process route, thereby alleviating a concern raised by the Authority in its decision letter on Modification Proposal 0054 / 0054a.

We believe that it is the governance process that controls change that is more important that the physical location of the words and that our proposal provides an excellent fit with arrangements approved by the Authority in their decision over the governance of other UNC referenced documents established during Network Code Modification Proposal 0730."

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

The Proposer of **Modification Proposal 0098** has suggested that implementation would better facilitate the relevant objectives for the following reasons:

"(a) the efficient and economic operation of the pipeline system, through ensuring that transporters have the best estimate available to them in a GDE of the quantity gas, which may have been offtaken, had an ECQ not been taken, thus enabling transporters to better balance the system in an emergency.

(b) the coordinated, efficient and economical operation of (i) the combined pipeline system and/or (ii) the pipeline system of one or more other relevant gas transporters, though ensuring a consistent and coordinated approach for all transporters to calculate a User's ECQ and ensuring the most accurate ECQ to better enable each transporter to balance their system in the event of an GDE.

(d) the securing of effective competition between relevant shippers and between relevant suppliers, through ensuring each shipper/supplier is subject to the same calculation process when the transporter determines their ECQ. As stated in Ofgem's decision letter to Modification Proposal 044, 'where different methodologies co-exist, this could 'result in shipper uncertainty as to the treatment of particular loads (and

potentially differential treatment of loads connected to different networks).' We accept that the transporters have agreed to a uniform revised ECQ calculation methodology, however, as the methodology remains outside the Code, Users are not provided with adequate assurance that different methodologies may not materialise or that the methodology itself may change, without the appropriate governance framework.

(f) the promotion of efficiency in the implementation and administration of the network code and or the uniform network code through ensuring that key methodologies, which have significant commercial impacts on Users, are subject to code governance procedures."

The Proposer of **Alternative Modification Proposal 0098a** stated "We believe that the incorporation of this document under the governance of the UNC would assist transparency and accountability. It also has the means of providing efficient consultation. These factors would contribute both to the efficient and economic operation by transporters the combined pipeline system and increase the certainty and confidence of all UNC parties, thereby facilitating competition between shippers and suppliers. Therefore, we consider that implementation of this proposal would further the relevant objectives of the proposed UNC."

Representations contributed the following views.

STUK made the general assertion that Modification Proposal 0098 *"better facilitates the relevant objectives, as outlined in the proposal, further than the current arrangements in place and over and above the proposals, as suggested under the alternative Modification 098a."*

RWE, in its support of the methodology revision in Proposal 0098, commented that including *"the extra step will also remove the distortion that will inevitably arise from shippers only challenging ECQs where they exceed the daily nomination but not challenging those where the nomination is greater than the ECQ based on a historical allocation."*

SSE believed that implementation of Proposal 0098 would ensure *"efficient and economic operation of the network" by "ensuring the best estimate of projected gas usage is available to transporters in the event of a GDE."*

STUK concurred with the views set out in Proposal 0098.

SGN did not believe implementation of Proposal 0098 would better facilitate the efficient and economic operation of the pipeline system since in its view *"it has not been proven that the use of nominations would ensure Transporters would have the best estimate available. Indeed we believe in most cases accuracy would be reduced. As steps would have to be implemented sequentially, nominations would still have to be used, even when Transporters were aware they were not accurate or representative. We believe the use of nominations would not provide the incentive intend through the implementation of the ECQ process. We believe this would be detrimental."*

SGN were concerned that implementation of Proposal 0098 would be detrimental to effective competition, as there was at present *"significant potential for nominations to misrepresent intended usage".* SGN explained the basis for this view as follows:

"Nominations are provided by Shippers. As they are used for balancing purposes across the whole of the gas day, the focus is often on the end of day position. Nominations will be updated and finalised later in the day when the Shipper has a better understanding of their likely end of day position. We are unclear that they would provide a more accurate indication of actual usage at points throughout the day, particularly early in the Gas Day. OPNs are provided by the consumer, often direct from site. They are used for operational purposes. We believe OPNs are more likely to be updated on a regular basis throughout the day and are more likely to give an accurate picture of intended usage throughout the Gas Day."

BGT in its support for Proposal 0098 suggested, in terms of (d) securing of effective competition, that UNC governance would help ensure "*the uniform and consistent approach to the calculation of ECQs across all parties with responsibility for such calculation"*. BGT felt on balance that *"the inclusion of this process within the UNC, rather than as an ancillary document, provides for greater certainty of this consistency. It is recognized that inherent in this approach is a greater degree of complexity when changes are proposed but this is an acceptable constraint to achieve consistency,"*

NG UKD, in its opposition to Proposal 0098, argued there would be inefficient administration through "*an introduction of a dual process to achieve the same commercial effect"*. NG UKD believed *"the existing methodology, systems and procedures fulfil our UNC obligation to determine an ECQ which represents the quantity of gas 'each Transporter reasonably estimates (based on the information available to it at the time of making such estimate) that (a) User would have offtaken from the relevant Transporter's System at System Exit Points'"*. Further, NG UKD believed that *"the marginal effect of using nominations over allocations for a subset of Daily Metered Supply Points has not been established."*

NG NTS, in its opposition to Proposal 0098, similarly did not believe that *"the additional complexity added by this amendment to the ECQ methodology, meets the requirements of Standard Special Condition A11/2 of the GT Licence"*

SGN, with respect to Alternative Modification Proposal 0098a, reflected the proposer's views in concluding that implementation, "*should help promote efficiency in implementation of the UNC and facilitate competition between Shippers and Suppliers."*

WWU similarly argued that the governance approach in Alternative Modification Proposal 0098a *"will lead to the more efficient administration of the UNC"*.

WWU argued that the inclusion of shipper nominations in the ECQ methodology (Modification Proposal 0098) "would require significant system changes" and "*appears to be a dual process to manage ECQ exposure which would be inefficient administration when the P70 and P70 (Firm) forms already exists."*

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

Both Proposals:

Each proposal provides a view that UNC governance for the ECQ methodology would assist efficient and economic operation of the Total System.

The Proposer of **Modification Proposal 0098** suggested that the inclusion of a further step to the methodology "will give an accurate as possible estimate of the associated quantities of gas, providing a better representation of individual portfolio positions and, consequently, representation of the system as a whole".

SSE supported the proposal of *"defined sequential steps that include nominations if OPNs are unavailable on day one of an emergency, when calculating the ECQ."*

STUK commented in the context of Modification Proposal 0098 *"In the event of a gas emergency, the inaccurate calculation a User's ECQ could lead to shipper failure and moreover, may lead to an inaccurate representation of the balance of the total system."*

STUK believed that implementation of Modification Proposal 0098 would *"avoid unnecessary fragmentation and subject the ECQ methodology to the full jurisdiction of the established cover governance process."*

BGT supported inclusion of Nomination quantities within the ECQ calculation suggesting this is *" an essential requirement as these are often the most accurate figure of proposed offtake volumes. We support the proposed order of ranking of these various sources of information as we believe that this represents the more reliable sources as the preferred choice."*

RWE argued that *"daily nomination should always represent a more accurate reflection of such a site's expected consumption on the day in question than any historical allocation or scaled SOQ and so should logically be included within the ECQ methodology."* Further, RWE commented: *"Not including this extra step in the ECQ methodology may also adversely impact the efficiency of any demand side response arrangements shippers are able to put in place with large DM customers."*

SGN argued that accuracy could be reduced, as detailed elsewhere in this report.

NG UKD believed it was inappropriate to *"change the methodology by which the ECQ is derived."*

In respect of **Modification Proposal 0098** the Proposer suggested that by placing a common methodology within the UNC implementation "will guard against unnecessary fragmentation and make available a clear and consistent approach, providing greater certainty in the event of a Potential Gas Deficit Emergency or an actual Gas Deficit Emergency (GDE)." SSE concurred..

Alternative Modification Proposal 0098a is confined to proposing governance of the existing ECQ Methodology Statement (version 1.1). The Proposer believed, nevertheless, that implementation would contribute to efficient and economic operation of the pipeline system.

The opinion of NG NTS was that implementation of Modification Proposal 0098a would institute *"a preferable option for formalizing the change process to the ECQ methodology, without adding additional complexity."*

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

a) implications for operation of the System:

Modification Proposal 0098

Implementation would potentially safeguard consistent calculation of ECQs by the Transporters in the event of an actual or potential GDE and would "give an accurate as possible estimate of the associated quantities of gas, providing a better representation of individual portfolio positions and, consequently, representation of the system as a whole".

A note of clarification from the Proposer's Representative was circulated on 31 August 2006 in response to the SME observations on the detail of the proposed revised methodology as follows: -

- Methodology 1st Gas Day iii) is inconsistent with the rest of the proposal unless Nominations are included.

  This refers to a typing error and we feel the intent of the proposal is made clear elsewhere; the sentence should read as follows:

  "*iii) For those relevant System Exit Points that do not provide OPNs or Nominations, or OPNs and/or Nominations are not available; the estimate will be based on historical allocations;"*

- The **Historical allocation calculation method** is not explicit about what should happen in the event that all days were curtailed in Step 2.

  See sentence in Proposal, 'if all days are curtailed, do not set estimate of curtailment using this method.' For the avoidance of doubt, the relevant Transporter would then progress to section 4, entitled SOQ (scaled), where this is the case.

- **SOQ (scaled)** algorithm seems to contain an error. The term SRj is defined but SRi appears in the equation and the latter is not defined.

  The use of 'SRi' is a typographical error and should read 'SRj'.

Alternative Modification Proposal 0098a

0098a focuses on governance arrangements only. Implementation would have the effect of reflecting prevailing operational practice in a UNC governed document.

RWE indicated it was *"not against the concept of including it as a UNC ancillary document as proposed in modification proposal 0098a."* In particular, RWE indicated potential acceptance if it could be demonstrated from legal text that *"the Uniform Network Code Committee and/or a shipper individually may propose changes to the ECQ Methodology, and which clearly highlights how such proposals will be accepted or rejected we would be prepared to accept its inclusion as an UNC ancillary document."*

The SME notes that Modification Proposal 0098a states "for the avoidance of doubt….any UNC party could propose a change…using either the committee route or the modification process route".

b) development and capital cost and operating cost implications:

Modification Proposal 0098

The Proposer "accepts that transporters are currently unable to view User Nominations on Gemini." and suggests for this coming winter NG NTS might "submit an automated report to transporters, detailing User Nominations, once a potential or actual GDE has been called".

SGN did not believe *"functionality could be developed to ensure nomination reports could be provided to DNs under Modification Proposal 0098 for this coming winter."* SGN expressed the concern that *"even if reports were provided, in a significant number of cases nominations would be aggregated at Shipper level and not site level. Significant development would be required to allow Transporters to quickly disaggregate data contained in the report to allow them to calculate site specific ECQs following curtailment."* Further SGN did not believe *"there is sufficient evidence to suggest the use of nominations would ensure the ECQ methodology would give a more accurate estimate of the ECQ."*

NG UKD suggested 0098 would require "*new system support and increased data transfer" and stated "Such a system could not be implemented without significant costs to DNs. We believe this would be inefficient use of resources given that a means to provide the principle net effect of the change is already available to shippers and the marginal effect of using nominations over allocations for a subset of Daily Metered Supply Points has not been established."*

NG NTS similarly suggested that the proposal would require "*additional processes for collation and transfer of Nomination information to DNs*" and "*system changes to support these new processes would be extensive, requiring major redevelopment of core business applications"*

STUK, in the context of Modification Proposal 0098, considered that "the benefits of transporters having access to the most accurate information available to them far outweighs the system costs, which might be involved in making this information available."

Alternative Modification Proposal 0098a

As the proposal relates to governance only, no development, capital cost and operating cost implications have been identified. The Proposals reflects prevailing operational practice.

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

Both Proposals:

Neither Proposer suggested a cost recovery mechanism.

SGN commented *"Modification Proposal 0098 is not clear in how costs would be recovered. We do not envisage any significant costs will be incurred should 0098a be implemented therefore this isn't an issue."*

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

Both Proposals:

No such consequences on price regulation 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

Both Proposals:

Neither Proposer has identified any such consequences in their respective proposals.

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

Modification Proposal 0098

The Proposer "accepts that transporters are currently unable to view User Nominations on Gemini." and suggests for this coming winter NG NTS might "submit an automated report to transporters, detailing User Nominations, once a potential or actual GDE has been called". No impact assessment is available at present to clarify timescales or costs for this piece of work.

RWE supported the Proposer in this approach. They noted *"it is not possible for us to gauge the extend of any re-write required to……current ECQ calculator to accommodate 0098*" but suggested a manual workaround for this winter. .

NG UKD indicated that the change in methodology *"would require a significant re-write of the ECQ calculator system"* and explained some the detail of the systems implications.

WWU and SGN also commented on system implications. See comments elsewhere in this report. SGN commented that it could *"take in the order of 6 months to include nominations and the sequential processing. Initial high level assessment suggests cost could in the order of £200k. Implementation would not be possible for September 2006."*

Alternative Modification Proposal 0098a

The Proposer did not anticipate any system changes as the proposal relates to governance only and the proposed governance model already exits and SGN concurred.

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

Both Proposals

By implementing a common methodology under UNC governance arrangements that allows any UNC party to propose a change to the methodology, it might be anticipated that Users' levels of contractual risk would be better identified and reduced.

Modification Proposal 0098 if implemented would make the changes to the ECQ methodology subject to the full modification process whereas for **Alternative Modification Proposal 0098a**" the Proposer suggested that implementation would place governance of ECQ methodology changes "under the oversight of the UNC committee, with recourse to modification procedure if the committee could not make determination."

NG UKD, in its representation on 0098, stated that "*single modification proposal that would require the Authority to provide a single judgement on whether or not to include the*

"ECQ Methodology Statement", ("the methodology"), within the UNC governance framework, and change the methodology by which the ECQ is derived, is inappropriate."

The Proposer of **Modification Proposal 0098** suggested that implementation would "give an accurate as possible estimate of the associated quantities of gas, providing a better representation of individual portfolio positions…"

NG UKD suggested that a change *"to the methodology to include nominations in the calculation could impact the commercial regime, DM nomination behaviour, and consequently, NDM nominations, allocations and quantity of gas settled through reconciliation."* NG UKD understood *"the principle commercial aspect of the proposal has been included to allow shippers to reduce their exposure to the ECQ by being able to nominate sites to zero"* and its main issue with this was *"there is already an established means of doing this by submitting P70 and P70 (Firm) forms and hence we believe this proposal simply seeks to superimpose one ECQ mitigation on another."*

NG UKD also queried whether the *" 'nominate to zero' provision was intended for all DMC supply points" or only OPN sites as suggested in the proposal.*

SME notes this has since been clarified by the Proposer. See comments on page 10.

RWE, in supporting Proposal 0098, stated *"it is unacceptable simply to expect shippers to resolve any ECQ discrepancies arising from not using nomination data through the ECQ disputes process, bearing in mind the material impact this could have on a shippers imbalance exposure during the intervening period."* Regarding demand side response RWE stated *"Not including this extra step in the ECQ methodology may also adversely impact the efficiency of any demand side response arrangements shippers are able to put in place with large DM customers. In the event customers do provide demand side response but this is not reflected in a shippers portfolio balance (because a nomination giving effect to this is ignored), a shipper would face the prospect of having to pay compensation to the customer whilst experiencing an immediate dis-benefit and having to rely on an untested claims process to ensure they were not disadvantaged as a consequence of the customers actions."*

RWE cautioned, *"The extent to which shippers may face material financial exposure as a result of ECQ Trades attributed to them should not be underestimated, particularly in a prolonged emergency. Relying on historical allocation data that is inherently inaccurate when more accurate information has been provided could increase a shippers financial exposure unnecessarily, and in extremis this could force shippers into premature failure."*

The response to the SME observations in relation to the detail of the proposed revised methodology may also be relevant to Users.

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

Both Proposals:

Implementation would provide a higher level of assurance and consequently might reduce the level of contractual risk for consumers at Supply Points impacted by the ECQ process.

Modification Proposal 0098 puts forward a further step and detail regarding System Exit Points that provide Nominations suggesting that this would improve accuracy and confidence.

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

Both Proposals:

No such consequences have been identified.

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

Both Proposals

The following advantage of implementation has been identified:

- It would guard against unnecessary fragmentation and make available a clear and consistent approach, providing greater certainty in the event of a potential or an actual GDE

The following disadvantage should be acknowledged:

- Requiring any change in the ECQ methodology to go through code governance would limit the ability of Transporters to quickly make changes where experience had shown them to be necessary.

The Proposer of **Modification Proposal 0098** has identified the following specific advantages of implementation:

- It would set out the substantive commercial terms relating to ECQ calculation in a document that would be subject to the full jurisdiction of the modification process.
- The process outlined would give both Users and transporters sufficient confidence that the ECQ methodology will give an accurate as possible estimate of the associated quantities of gas, providing a better representation of individual portfolio positions and, consequently, representation of the system as a whole.

The Proposer of **Modification Proposal 0098** identified the following, which may be viewed as a disadvantage.

- Transporters other than National Grid NTS are currently unavailable to view User Nominations on Gemini and therefore there would be some operational impact.

The Proposer of **Alternative Modification Proposal 0098a** has identified the following specific advantages of implementation:

- It would provide an efficient means of consultation on the ECQ Methodology and provide “an excellent fit with the arrangements approved by the Authority in their decision over the governance of other UNC referenced documents established during [Transco] Network Code Modification Proposal 0730”

- It would allow "at any stage of the change process, any UNC party could propose a change to the methodology using either the [UNC] Committee route or the modification process route."

The Proposer of **Alternative Modification Proposal 0098a** has not identified any disadvantages.

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

Nine representations were received.

Organisation	Abbreviation	0098 position	0098a position
British Gas Trading	BGT	Support	Not in Support
National Grid Distribution	NG UKD	Not in Support	Support
National Grid NTS	NG NTS	Not in Support	Support
RWE Npower / RWE Trading	RWE	Support	Not in Support
Scotia Gas Networks	SGN	Not in Support	Support
Scottish & Southern Energy	SSE	Support	Not in Support
Statoil (U.K.) Ltd	STUK	Support	Comment
Total Gas and Power	TGP	Support	Not in Support
Wales & West Utilities	WWU	Not in Support	Support

The RWE representation was the joint response of RWE npower and RWE Trading GmbH.

Five (BGT, RWE, SSE, STUK, and TGP) respondents supported implementation of Proposal 0098.

Four (NG UKD, NG NTS, SGN, WWU) respondents supported implementation of Alternative Proposal 0098a.

Both WWU and NG UKD expressed opposition to Modification Proposal 0098 as it did not seem *"appropriate to ask the Authority to approve both a governance framework and a detailed methodology within one Modification."*

Governance Arrangements

NG UKD, in its representation, explained that implementation would allow *"straightforward changes to be signed off by the UNC committee, with more complex, commercially sensitive matters being resolved using UNC modification rules"*.

SGN supported *"the principle that the ECQ methodology should come under the governance of the UNC and that Shippers and Transporters should have the ability to propose changes. SGN is also supportive of the principle that a common methodology should be applied by all Transporters" and "believe these principles help ensure transparency and efficiency in implementation of the arrangements."*

SGN commented: *"The ECQ methodology itself does not set out commercial terms. It is not true that principles can only be delivered by incorporating the entire ECQ methodology within the UNC. We believe the ECQ methodology is a procedural document and like other methodology statements, it is just as appropriate and potentially*

more efficient for governance and modification to be dealt with by the UNC Committee. The Committee has balanced representation of Transporters and Shippers as it is made up of UNC Panel members" and believes "the UNC Committee process would give parties more flexibility and allow them to respond to changing circumstances or requirements much quicker

TGP supported inclusion of the ECQ Methodology within the UNC (Modification Proposal 0098). TGP commented *"In our view subjecting it to the same governance arrangements as the UNC will improve the transparency and accountability of the process". However they noted that "98a may only be subsequently modified if transporters, at their discretion, suggest proposed changes to the Network Code Committee. The SME notes that 0098a allows all UNC parties to propose changes.*

Inclusion of Nominations

SGN believed Modification Proposal 0098 in summary *"adds a further and significant change to the existing methodology….. There are a number of issues associated with this aspect of the proposal which we believe have not been thought through. They require careful consideration. A significant amount of effort and expenditure would be required to resolve some of these issues. We question whether there would be a real or net benefit.*"

TGP preferred *"the step-wise approach proposed in 98 and the proposal to use nominations should OPNs be unavailable. We consider these are the most accurate values for projecting gas usage and deriving ECQ volumes during the first day of either an imminent or actual gas deficit emergency. The proposed step-wise approach should also lead to more consistency, between transporters, when deriving these values. This consistency in turn should provide greater levels of clarity and reduce the ex-post administrative burden of shippers attempting to independently validate these transporter-calculated values. It may also reduce the number of appeals raised after the emergency period. Hence we consider proposal 98, relative to 98a, better facilitates the relevant objectives"*

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

Both Proposals

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

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

Both Proposals

Implementation is not 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.

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

Modification Proposal 0098

The Proposer accepted "that transporters are currently unable to view User Nominations on Gemini." and suggested for this coming winter NG NTS might "submit an automated report to transporters, detailing User Nominations, once a potential or actual GDE has been called".

Alternative Modification Proposal 0098a

No programme for works would be required as a consequence of implementing the Modification Proposal.

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

Modification Proposal 0098

The Proposer put forward a Proposed Implementation Date of September 2006.

Alternative Modification Proposal 0098a

The Proposer suggested implementation as soon as possible.

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

Both Proposals:

No such implications of implementation 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 19 October 2006, of the 10 Voting Members present, capable of casting 10 votes, 5 votes were cast in favour of implementing Modification Proposal 0098. Therefore the Panel did not recommend implementation of Modification Proposal 0098. At the same meeting, 5 votes were cast in favour of implementing Alternative Proposal 0098a. Therefore the Panel did not recommend implementation of Alternative Proposal 0098a.

The Panel then proceeded to vote on which of the two Proposals would be expected to better facilitate achievement of the Relevant Objectives. Of the 10 Voting Members present, capable of casting 10 votes, 5 votes were cast in favour of implementing the Proposal 0098 in preference to Alternative Proposal 0098a, and 5 votes were cast in favour of implementing the Alternative Proposal 0098a in preference to Modification Proposal 0098. Therefore there was no determination as to which of the two Proposals would better facilitate the achievement of the Relevant Objectives.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION Q – EMERGENCIES

Amend paragraph 6.1.1(c) to read as follows:

"(c) "**Emergency Curtailment Quantity**" means, in respect of a User, the quantity of gas calculated by National Grid NTS as being the sum of the aggregate quantities of gas (in kWh) which each Transporter reasonably estimates (in accordance with Section Q6.4 and 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.

"**6.4 ECQ Methodology**

6.4.1 Each User's Emergency Curtailment Quantity for a Gas Flow Day shall be calculated using the methodology set out in this paragraph 6, and shall (subject to paragraph [6.2(e)]) be determined as the sum of the amounts determined by the following paragraphs in respect of each System Exit Point for which the User is a Registered User and in respect of which Emergency Curtailment has occurred.

6.4.2 Where, in respect of a System Exit Point, the Emergency Curtailment occurs in a single Gas Flow Day, or where the period of Emergency Curtailment covers more than one Gas Flow Day, the following shall apply in relation to such single Gas flow Day or the first Gas Flow Day of such period:

(a) For each System Exit Point in respect of which Emergency Curtailment has occurred and in respect of which an Offtake Profile Notice has been submitted, the quantity of gas that would have been offtaken in respect of such System Exit Point but for the occurrence of Emergency Curtailment shall be calculated on the basis of the rates of offtake specified in the Offtake Profile Notice for the Gas Flow Day.

(b) For each System Exit Point in respect of which Emergency Curtailment has occurred and in respect of which an Offtake Profile Notice has not been submitted, but an Output Nomination or Renomination has been submitted, then the quantity of gas that would have been offtaken in respect of such System Exit Point but for the occurrence of Emergency Curtailment shall be calculated on the basis of the Nomination Quantity divided by 24 and multiplied by the number of hours remaining in the Gas Flow Day.

(c) For each System Exit Point in respect of which Emergency Curtailment has occurred and in respect of which no Offtake Profile Notice or Nomination or Renomination has been submitted, then the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be calculated as follows:

(i) if the System Exit Point was not subject to Emergency Curtailment on the Gas Flow Day falling 7 Days prior to the Gas flow Day in question ("**D-7**"), the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be calculated as an amount equal to the quantity of gas offtaken at the System Exit Point on D-7 during the equivalent period in D-7 as the period in the Gas Flow Day; or

(ii) if the System Exit Point was subject to Emergency Curtailment on D-7 but if the System Exit Point was not subject to Emergency Curtailment on the Gas Flow Day falling 14 Days prior to the Gas Flow Day in question ("**D-14**"), the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be calculated as an amount equal to the quantity of gas offtaken at the System Exit Point on D-14 during the equivalent period in D-14 as the period in the Gas Flow Day; or

(iii) if the System Exit Point was subject to Emergency Curtailment on D-7 and on D-14 but if the System Exit Point was not subject to Emergency Curtailment on the Gas Flow Day falling 21 Days prior to the Gas flow Day in question ("**D-21**"), the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be calculated as an amount equal to the quantity of gas offtaken at the System Exit Point on D-21 during the equivalent period in D-21 as the period in the Gas Flow Day; or

(iv) if the System Exit Point was subject to Emergency Curtailment on D-7 and on D-14 and on D-21 but if the System Exit Point was not subject to Emergency Curtailment on the Gas Flow Day falling 28 Days prior to the Gas flow Day in question ("**D-28**"), the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be calculated as an amount equal to the quantity of gas offtaken at the System Exit Point on D-28 during the equivalent period in D-28 as the period in the Gas Flow Day; or

(v) if the System Exit Point was subject to Emergency Curtailment on D-7 and on D-14 and on D-21 and on D-28, the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be calculated as an amount equal to the quantity of gas offtaken at the System Exit Point on the first Gas Flow Day (the "**relevant Day**") before D-7 but not earlier that D-28 on which no Emergency Curtailment occurred in respect of that System Exit Point during the equivalent period in the relevant Day as the period in the in the Gas Flow Day; or

(vi) if there is no relevant Day in respect of the System Exit Point, the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be deemed to be zero.

(d) For each System Exit Point in respect of which Emergency Curtailment has occurred and in respect of which no Offtake Profile Notice or Nomination or Renomination has been submitted, and no historical data is available to permit the calculation pursuant to paragraph 6.4(c), then the quantity of gas that would have been offtaken in respect of such System Exit Point but for the occurrence of Emergency Curtailment shall be calculated as follows:

$$ECQ = RSPC * (CD/24) * CR$$

Where:

ECQ is the User's Emergency Curtailment Quantity for the System Exit Point in question (in kWh);

RSPC is the Registered Supply Point Capacity at the System Exit Point in question (in kWh);

CD is the duration of the Emergency Curtailment for the Gas Day in question in respect of the System Exit Point in question (in hours). For the avoidance of doubt, CD shall never be greater than 24; and

CR is an amount equal to the Aggregate Forecast Demand for all System Exit Points other than NDM and Priority Supply Points divided by the sum of RSPC for all System Exit Points other than NDM and Priority Supply Points.

(e) In respect of any System Exit Point at which Emergency Curtailment occurred which is a Shared Supply Meter Point, the quantity of gas that would have been offtaken in respect of such System Exit Point on the Gas Flow Day but for the occurrence of Emergency Curtailment shall be apportioned amongst the Registered Users of such System Exit Point on the basis of an allocation methodology provided by the Registered Users (or agent on behalf of the Registered) to the relevant Transporter following notification that Emergency Curtailment was required at the System Exit Point in question. In the absence of an allocation methodology, the quantity of gas that would have been offtaken in respect of such System Exit Point but for the occurrence of Emergency Curtailment shall be apportioned equally amongst the Registered Users of such System Exit Point.

6.2.3 Where the period of Emergency Curtailment covers more than one Gas Flow Day, the quantity of gas that would have been offtaken in respect of such System Exit Point on each subsequent Gas Flow Day of such period but for the occurrence of Emergency Curtailment shall be calculated on the basis of the provisions set out in paragraph (c), (d) and (e) of Section Q6.2.3."

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 :