

**CODE MODIFICATION PROPOSAL No. 00xx**  
**"User Compensation for NEC Storage Curtailment"**  
**Version Draft**

**Date:**

**Proposed Implementation Date: Urgency: Urgent**

**Proposer's preferred route through modification procedures and if applicable, justification for Urgency**

(see the criteria at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752\\_Urgency\\_Criteria.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf))

National Grid NTS requests Urgent status in respect of this Proposal on the basis that it believes UNC Modification Proposal 052 reduces the current incentive for Users to balance their portfolios.

The revision to the User compensation arrangements in the event that the NEC direct Storage Operators to curtail storage withdrawals put forward in this Proposal should be implemented prior to the Winter 2005/06 peak demand periods, in order to ensure that Users retain appropriate incentives to maintain the balance within their portfolios at times of high demand. It also, by compensating Users for curtailed storage withdrawals, corrects the perceived perverse incentive, voiced by some industry participants that the NEC having rights to curtail storage withdrawals in order to protect Safety Monitors may encourage some Users to withdraw their gas earlier in the winter than may otherwise be the case.

**Nature and Purpose of Proposal (including consequence of non implementation)**

*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.*

National Grid NTS understands that the aim of UNC Modification Proposal 052 was to ensure that Users\* whose storage withdrawals had been curtailed by National Grid NTS\*, working under instruction from the NEC\*, were kept whole by obliging National Grid NTS to trade a quantity of gas equivalent to that curtailed. In consideration of this trade National Grid NTS would be paid 30 day average SAP\* by the User. Through these proposed arrangements, Users can effectively be compensated for the same quantity of gas on multiple occasions as the volume that can be claimed for is fixed at the beginning of each curtailment action irrespective of whether compensation has been received for the same quantity of gas in an earlier curtailment incident. Title to the gas in store is unaffected by the trade and hence, as well as potentially receiving multiple incidence of compensation for a quantity of stored gas, a User will also be able to benefit from the value of the gas when it is actually withdrawn.

National Grid NTS consider that the effect of Modification Proposal 052 will be to distort the market in favour of Users affected by the actions of the NEC in relation to storage curtailment and potentially reduces the incentive on these Users to contribute to a physical daily balance and

therefore potentially leads to an increase in the activity of the National Grid NTS in its role as the residual balancer. Indeed National Grid NTS believe that in a severe winter (1 in 50) the costs of such actions by the residual balancer may approach the £600 million highlighted by Ofgem in its document: The Review of Top Up arrangements in Gas: Conclusions Document.

Further, the fact that a User could receive multiple compensation payments for the same gas in store, may encourage inappropriate commercial behaviours.

## The Proposal

The aim of this Proposal is to ensure that Users, affected by a NEC directed curtailment of Storage, are appropriately compensated whilst at the same time retaining an appropriate incentive to balance on the Day\*. The cost to a User of being short on the Day is essentially  $SMP_{Buy}$  minus SAP so in order to retain an incentive on Users to balance their positions any compensation for Storage Curtailment needs to be less than this. The level of compensation should also appropriately recognise that title to the curtailed stored gas is retained by the User and this gas will still be available for the User to withdraw at a later date. The compensation should therefore also reflect the cost of putting gas into Storage and holding it there. National Grid NTS propose that an appropriate approximation of this amount is the average summer SAP\* price plus the fixed differentials (which are based upon storage costs) between  $SMP_{Buy}^*$  and  $SMP_{Sell}^*$ .

The Proposal therefore is that Users should receive a storage curtailment compensation payment that is the lesser of;

$$(SMP_{Buy} - SAP) \times 0.5$$

[It is recognised that 0.5 may be considered arbitrary but it is designed to ensure that the incentive to balance is maintained]

or,

$$SAP - (ASSAP + 0.0611p)$$

Where, ASSAP (Average Summer SAP) = Average end of Gas Day SAP between 1<sup>st</sup> April and 30<sup>th</sup> September inclusive.

0.0611p is the minimum differential between  $SMP_{Buy}$  and  $SMP_{Sell}$  currently within UNC Section F 1.2. (This was originally conceived, in Network Code Modification Proposal 0433, as being representative of the cost of transferring gas into and out of storage.)

It is also proposed that where the storage curtailment compensation payment calculated above is negative, it shall default to zero.

Users would be required to submit to National Grid NTS a Curtailment Quantity Claim for each relevant Storage Connection Point (CQC). The CQC should be received by National Grid NTS before 04.00 on D\*. National Grid NTS will then calculate the storage curtailment compensation payment and notify the User by [04.00 on D+1].

The maximum quantity of gas in store that a User could claim compensation for, in relation to each Gas Day and each storage facility within a storage facility category, would be lesser of

- ❑ The quantity of gas held in store at the time of the first instance of storage curtailment at a relevant storage facility within a category plus aggregate storage injection quantities less aggregate storage withdrawal quantities less the aggregate quantity of storage curtailment claims made on previous days within the winter period in relation to that facility, and;
- ❑ The User's withdrawal rights at the relevant storage facility

The CQC shall include the following details:

Identity of the User (i.e. name and ID)

Storage Connection Point (i.e. name and ID),

Name of the Storage Operator,

Storage Allocation Agent\* if different from the Storage Operator.

Opening stock of gas held by that User in the Storage Facility at the start of the first Day of the initial storage curtailment,

The prevailing Input Nomination\* at the time the storage curtailment was requested,

The quantity of gas on which a storage curtailment compensation payment has been made during the Gas Year\* to date.

Quantity of gas injected into storage facility since the first day of initial storage curtailment .

Quantity of gas withdrawn from storage facility since first day of the initial storage curtailment.

It is proposed that all storage curtailment compensation payments shall be funded from Balancing Neutrality\*. Users shall be prevented from making multiple claims for curtailment of the same gas.

For example:

A User that has 10 units of gas in store and has 1 unit curtailed for a period of 5 days will receive compensation on 5 units. If later in the same winter there is a further curtailment of storage the User may still have 10 units in store but regardless of his intentions or the duration of any storage curtailment, the User will only receive a further 5 units of compensation. Clearly if the User had injected additional gas into storage between the first and any subsequent curtailment period, then they may be entitled to receive a storage curtailment compensation payment for each unit of "new gas" if appropriate. (need to provide calculation graphics and examples as part of the proposal)

Any disputes that relate to the calculation of any storage curtailment compensation payment would follow the normal UNC disputes process set out in Section A of the UNC – General Terms, Dispute Resolution.

**Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence**

National Grid NTS considers 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 NTS considers that this Proposal may improve *“the efficient and economic operation of the pipe-line system”* by ensuring Users are incentivised to balance their own portfolios by contributing to the physical balance of the Total System and therefore help ensure that the market activity of the residual balancer is maintained at an efficient level.

In respect of paragraph 1.e): National Grid NTS considers that this Proposal might improve *“the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers”* by providing appropriate compensation to Users affected by a storage curtailment whilst ensuring that each User retains an incentive to balance within the Day.

**Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation, timescales and suggested text**

**DRAFT**

**a. Proposed implementation timetable**

National Grid NTS requests that the Authority considers approval of the following proposed timetable:

Sent to Ofgem requesting Urgency  
Ofgem grant Urgent status  
Proposal issued for consultation  
Closeout for representations  
FMR issued to Joint Office  
Modification Panel Recommendation  
Ofgem decision expected

**b. Proposed legal text**

To follow

**c. Advantages of the Proposal**

The Proposal will provide appropriate compensation to Users affected by storage curtailment activity on behalf of the NEC.

The Proposal will ensure that the incentive on such Users to balance within the Day is maintained thus helping to ensure that the market activity of the residual balancer is maintained at an efficient level.

The Proposal ensures that Users affected by a storage curtailment cannot make multiple compensation claims for the same unit of gas.

**d. Disadvantages of the Proposal**

The Proposal does not prevent a User from obtaining an additional benefit from the gas it holds in Storage, by withdrawing it on a day after the curtailment period, when the market value of the gas may be higher than the potential value that was compensated for.

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

By ensuring that users retain an incentive to balance on the day short term security is not adversely impacted by the Proposal.

By compensating users for the curtailment of the gas they hold in storage and thereby helping to protect the Safety Monitors long term security of supply is enhanced.

**f. The implication for Transporters and each Transporter of implementing the Modification Proposal, including**

**i. implications for operation of the System**

Since the Proposal does not necessarily require additional balancing actions by the residual balancer there is no great impact envisaged in this area.

**ii. development and capital cost and operating cost implications**

none envisaged

**iii. extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs**

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

- g. 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 material consequences identified

- h. 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**

Minor changes to systems or manual workarounds may be required

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

Users affected by a curtailment of Storage Withdrawal will benefit from the compensation payment thus reducing their contractual risk. Additional operational costs associated with submitting claims, etc are believed to be negligible.

**Code Concerned, sections and paragraphs**

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**Proposer's Representative**

Chris Logue

**Proposer**

Ritchard Hewitt

**Signature**

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