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Revision of the Emergency Cashout Arrangements - UNC0021

Thank you for the opportunity to comment on UNC0021 (Urgent) in respect of the Emergency Cashout Arrangements in place during a Gas Deficit Emergency (GDE) and compensation and position adjustment for loads interrupted during such an emergency.

On the basis of the potential discrimination against storage users identified below and the limited time to fully consider these proposals, Centrica Storage Ltd (CSL) is unable to support this modification at this time. We do however believe that specific aspects of this modification could further the relevant objectives and call on the proposer to withdraw this modification to enable a modification to be raised which addresses all types of emergency with more clarity.

CSL understands that Transco has modified its safety case in a way which will cause significant changes to the market with respect to emergencies. Specifically, but not limited to, changing a storage monitor breach emergency from stage 2 where the market is suspended to stage 1 where the market is allowed to continue. We do not believe that the effects of this modification can be sufficiently considered in isolation from the draft proposal to change section Q in a coherent and inclusive way.

Urgent Status

CSL would like to make some observations on the process adopted by the proposer. The Cash Out review Working Group (CORWG) did meet to discuss emergency cash out arrangements but no firm proposals were put forward. These meetings took place between December 2004 and March 2005 and it would seem to be entirely appropriate for a modification to have been developed and discussed by this group before being presented to the transmission work-stream for more detailed review; examination and clarification. Instead it is left to the SME to seek clarification for the Final Modification Report (FMR) due to the urgent status that has been given to this modification. If any unintended consequences are missed due to the 20 calendar days available for consultation then the FMR may not be comprehensive enough for Ofgem make a robust decision in line with their statutory duties. We request that the modification panel reflect this issue in any recommendation.

The interactions of the Emergency Cash out arrangements with other parts of the market are not easy to understand. The industry has examined these issues for some time and failed to provide a solution that furthers the relevant objectives. Furthermore, Transco NTS has sought urgent status to provide sufficient time for the industry to put in place appropriate arrangements for the coming winter. CSL believes that current forward prices for winter '05 provide sufficient incentives on system participants to make appropriate arrangements without further market intervention.

Emergency Cash Out Prices

CSL asks that the following points be taken into consideration in the FMR.

- UNC0021 (Part 1) will further the relevant objectives and enable the Authority fulfil their function to secure a diverse and viable long term energy supply by enabling a distressed UK network with a suspended market to continue to attract gas through the various interconnections that will be a feature of the GB energy market in the long term. CSL would like to see further analysis with regard to the expected response of the other markets and the extent to which other market prices are driven by UK gas prices.
- UNC0021 (Part 2) should be considered in relation to the incentives which could be created upon other parts of the system. CSL believes that these two parts of the modification would be better considered separately so that the weighting of the separate benefits and drawbacks can be considered separately. A weaker and less clear change to the UNC should not be able to gain implementation on the back of the balance of benefits provided by a stronger and clearer change. CSL urges the final modification report to be split into separate modifications for separate consideration.
- Setting the SMP sell price to SAP should, all other things being equal, encourage shippers to overflow against their portfolio position. CSL maintains the view that the market is capable of fulfilling this function more efficiently under the existing mechanisms.
- CSL consider an advantage of neutral cash out is that it allows the decision by Transco NTS to invoke an emergency to be free from other influences. If this proposal is implemented then it will become very difficult for Transco NTS to verify to the Authorities that every action was taken and the opportunity for the marginal therm to be delivered duly given. By imposing SMP buy on all short shippers once the emergency is called Transco NTS will have to justify that the marginal cash out price was economically and efficiently set e.g. Is it the last LNG therm or the realisation that all remaining demand is firm and indifferent to further price escalation? This modification will introduce a new ability for Transco to manage demand in an economic and efficient manner without consideration for how this ability would be wielded. CSL believes that it is unwise to introduce such a mechanism without also introducing a strong framework for controlling the trigger conditions for when it would be used and the process which would be applied.
- There may also be some complex interactions between Transco's incentives which the short consultation period has not afforded sufficient time to analyse.
- This proposal will create situations where the emergency appeals mechanism is inadequate.

Emergency Interruption Volume (EIV) Title Trade and Payment

CSL believes this aspect of the proposal seeks to incentivise interruptible load (Interruptible Supply Points) from the system prior to an emergency being declared – this is achieved through 'compensatory' payments being likely to be far lower than the worth of the marginal therm on such a day – thus imposing an opportunity cost on those sites and their shippers. CSL is therefore minded to accept that the 30 day average SAP represents an level of compensation which would incentivise sites to self interrupt.

The modification is not clear if the EIV would be applied to firm load that is interrupted in stage 3 of an emergency after the market becomes suspended.

Storage Withdrawals during Phase 1 of a GDE Emergency.

It is clear that NWC modification 0710 (Removal of Top Up) and the creation of Storage Safety Monitors make a GDE more predictable as the industry would be able to see the depletion rates at storage sites and could act accordingly. We now note that Transco have unilaterally changed their safety case to enable interruption of Storage withdrawals whilst the market remains in operation.

We urge Ofgem to allow the spot to forward markets to function correctly and without intervention. These resultant market signals should inform storage capacity users as to whether gas should be withdrawn from store and not by edict of the monopoly transporter whilst the market continues to operate (i.e. phase 1 GDE). We do not understand why the transporter has elected to change its safety case in this manner because it has weakened the incentives on users to purchase storage capacity and use stored gas in a responsible and efficient manner.

We continue to advocate in the strongest terms that any suggestion to be able to constrain storage withdrawals whilst maintaining a functioning market will distort competition between relevant users because storage users will suffer in order to support those shippers who choose not to provide sufficient physical supply. Moreover a heavy storage depletion rate in early winter will see the price of February and March increase and lead to a) an incentive for storage shippers to re-inject gas into store in the interim period (cycle), b) curtail storage withdrawals to the extent their portfolio's allow and finally c) signal to the market that insufficient indigenous storage capacity is available to the market.

For the avoidance of doubt CSL fully accepts that control of storage withdrawals may be appropriate by the National Emergency Coordinator (NEC), but not during the functioning of the market.

Please contact me if you require additional information

Yours sincerely

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