

Representation For UNC Modification Proposal 0052
“Storage Withdrawal Curtailment Trade Arrangements in an Emergency”

Date of Communication: 04/11/2005

External Contact: Ritchard Hewitt (National Grid – NTS)

Slant: Oppose

Strictly Confidential: No

Submitted By: Email Submitted

Abstract

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposal.

National Grid NTS understands the concerns raised by the author of this proposal and would like to make a number of specific comments on the Proposal and also to seek/provide clarification on certain points.

Below is our detailed response to the Modification Proposal: -

With respect to the extent to which implementation of the proposed modification would better facilitate the relevant objectives, National Grid NTS considers that the Proposal does not further the relevant objectives for the following reasons;

- The Proposal might weaken the incentives on Users to balance their own positions as under this Proposal National Grid NTS will, under the conditions specified, partially undertake this activity on their behalf. This will result from Users being able to affect their imbalance positions via the SWCQ without having to make the corresponding adjustments to either their supplies or demands. The residual gas balancing role would therefore need to expand to cover these instances. Furthermore the statement in the proposal that each NGSE event would be considered separately thus allowing the User to seek relief from cashout for the same gas stocks on a number of occasions would exacerbate the weakening of the incentives to balance. We do not consider this would further relevant objective A11 (a), the efficient and economic operation of the system or, relevant objective A11 (d), the securing of effective competition.
- If the Proposal is implemented and the proposed arrangements were to be instigated there is the possibility that the price specified for the SWCQ (30 day average SAP) might be too low leading to a disincentive for Users to procure price sensitive supplies, which might then have a negative impact on security of supply or result in higher cash-out prices as a result of an increased requirement on the residual system balancer to trade. The proposer refers to an

effect of the proposal being that the role of Residual Balancer may be increased. We consider that the potential increase in this role could be similar to that conceived for the previous role of Top Up Manager. The Ofgem document: “The Review of Top Up arrangements in Gas: Conclusions Document”, identified potential Top-Up winter injection costs of between £20m (low case, average winter) and £600m (high case, 1 in 50 cold winter) under the existing Top-Up arrangements at that time. National Grid NTS considers that the potential reintroduction of costs of this magnitude smeared through the Balancing Neutrality arrangements would not further the relevant objective A11 (d), the securing of effective competition.

- National Grid NTS understands from discussion in the Transmission Workstream that the intent of the Proposal is that any costs resulting from the scheme would be managed via the balancing neutrality mechanism. Those Users with a greater weighting towards storage holdings as a percentage of their annual throughput may obtain commercial benefits, at the expense of those Users with a greater weighting towards beach deliveries as a percentage of their annual throughput, resulting from the smearing of the additional costs via the balancing neutrality mechanism. The statement in the proposal that each NGSE event would be considered separately thus allowing the User to seek relief from cashout for the same gas stocks on a number of occasions would reinforce the impact of this smearing effect. We do not consider this would further the relevant objective A11 (d), the securing of effective competition.

With respect to the Proposer’s statement that; *“The consequence of not implementing the Proposal is that prudent Shippers that are rightly seeking to maintain stocks of gas in store to help sustain gas supplies for their customers throughout the whole winter period, would be perversely incentivised to withdraw that gas too early for fear of their gas being ‘locked in store’ in a NGSE. Such behaviour could cause or bring forward, the declaration of an NGSE, should Storage Monitors be breached or are about to be breached.”* National Grid NTS does not consider that the existing commercial arrangements provide such an incentive for certain Users to behave in this manner. On the contrary, we believe this incentive, if it exists, should be counter balanced and out weighed by the wider industry benefit of ensuring that sufficient storage stocks are maintained for all Non-Daily Metered consumers including domestic loads, and Priority Loads to meet their demands during a severe Winter period (1 in 50).

With regard to the statement put forward by the proposer in its discussion of the relevant objective (d) part (i) that *“It would be wrong for prudent shippers who have chosen to rely heavily on storage capacity to meet peak supplies to customers to be unduly discriminated against, just because less prudent shippers have to decided to withdraw gas from storage at much faster rates.....”* We would like to point out that whilst it echoes the proposers concerns regarding less prudent shippers National grid NTS considers that the role of the NEC is to deal with the position on the system resulting from the behaviour of all Users in aggregate. The NEC does not have the ability to know which Users are behaving prudently or not. National Grid NTS does

however understand this concern and would therefore support a full review of the roles and responsibilities for the provision of 1:50 security being undertaken.

Furthermore, in contrast to the statement put forward by the proposer in its discussion of the relevant objective (c) that *“It has been shown that the current situation is discriminatory, particularly for shippers who have invested in storage and have used it prudently”* National Grid NTS considers that the outcome of this Proposal would be to provide an unduly discriminatory level of relief for certain Users from the present cash-out mechanism in the event of a safety monitor breach at the expense of other Users.

National Grid NTS has obligations under the UNC to publish initial Safety Monitor levels by 31 May each year for the following winter, and to publish the full Safety Monitors by 31 October. The UNC also allows us to amend monitor levels under various circumstances. Consistent with these obligations, initial monitor levels were published on an indicative basis in the ‘Consultation on Winter’ document on 31 May 2005.

Following the consultation process, a set of supply assumptions considered to be appropriate for the purpose of setting the Safety Monitors were derived based on the Winter Outlook Report base case representations received, and with a reduction of 10 mcm/d in the total level of supply to account for a significant level of supply-side risk at the time at which the monitors were published.

In our view, the risk of a Safety Monitor breach is considerably lower with these starting levels than it would have been given the levels published in May. Given the level of consultation and the period of time over which these monitors have been derived and published, we consider that it would not be appropriate for certain Users to be provided with the level of relief proposed from the present cash-out mechanism in the event of an actual or potential safety monitor breach.

To conclude, National Grid NTS does not consider that the Proposal furthers the relevant objectives sufficiently to warrant support. However, we consider it to be appropriate, regardless of the outcome of this Proposal, for a full review of the roles and responsibilities for the provision of 1:50 security to be undertaken.

Points of Clarification

National Grid NTS would like to take this opportunity to seek, or provide, further clarification on certain points raised in this Proposal.

- The proposal uses the terminology “Transco NTS” throughout. It is our understanding that the proposer is referring to this entity in its role as residual gas balancing operator undertaking operational balancing activities as described in section D of UNC.
- The proposal states that “Transco NTS” would not be subject to Balancing Charges, Balancing Neutrality Charges, Scheduling Charges or Daily Imbalance Charges. It is our belief that any charges against the residual gas

balancing incentive payments should also be excluded.

- The proposer has stated in the discussion of relevant objective (d) part (i) that *“Transco NTS in its development of the NEC Safety Case seems to have forgotten that”* We would like to point out that the NEC Safety Case was developed by National Grid Transco plc in its role of the NEC prior to sale of the Distribution Networks and therefore the NEC Safety Case was developed by all Transporters rather than solely by the NTS Transporter. Furthermore the NEC operates on behalf of the entire industry in conjunction with the HSE to manage emergency conditions.
- We would like to point out that the actions taken by the NEC to curtail storage are only taken when it is evident that the lack of such action would in the event of a 1 in 50 winter result in a requirement to isolate Domestic, NDM or other Priority Loads at some point in that winter.
- In section (b) of the description of the Calculation of the Storage Withdrawal Curtailment Quantity the proposal states that *“CQ scp shall not exceed the maximum available deliverability provided to Transco NTS by the Storage Operator for the relevant Storage Facility”* We would like to seek further clarification of what is meant by the term *“relevant Storage Facility”* as we believe this could be interpreted in a number of ways.
- Also, in the context of “maximum available deliverability” we would seek further clarification as to how the scheme would operate under conditions where a number of NGSE events were called and subsequently lifted at several points throughout the winter. It is not clear to us whether the proposal as written, would allow Users to receive relief for the same quantities of gas held in store, via the SWCQ, on more than one occasion.
- The proposal has used the terminology NGSE throughout. Given the context of the issue that the proposer seeks to address, we have assumed that the reference is to a Stage 1 Potential NGSE rather than to a Stage 2 NGSE (or actual emergency) and we would seek confirmation that this assumption is correct.
- It is our understanding from the proposal that the User would have the ability to change its nominated Trade volume after the NEC Curtailment notification had been made. We would question whether the ability to do this is appropriate as it provides Users with the ability to avoid cashout exposure.

Yours Sincerely,

Ritchard Hewitt
National Grid – NTS