nationalgrid

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Dear Julian

UNC Modification Proposal 0052: 'Storage Withdrawal Curtailment Trade Arrangements in an Emergency'

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

National Grid Gas plc (UK Distribution) ("Distribution") is of the opinion that, providing shippers as a group are comfortable with the potential for specific shippers with gas "locked-in-store" to be able to balance using virtual inputs into the system, while physical gas deficits are resolved by the residual balancer using gas sourced from the market, then Distribution is prepared to support implementation.

As stated above, Distribution's position is conditional. The conditionality is due to restricted discussion there has been on the commercial impacts of the proposal. Most of the Workstream discussion has focussed on refining the rules to make the proposal capable of being implemented with little debate devoted to the effects of implementation. For the conditionality to be satisfied, a significant proportion of representations from shippers would have to support, or support in principle, implementation. Shippers would have to demonstrate they are cognisant of the risk they are running with respect to smeared balancing charges. This would imply that the risk is capable of being managed and implementation would not be to the detriment of competition.

Distribution is of the view that had the proposal been limited to Day 1 of an emergency, support for implementation would have been unconditional. It seems only fair that if a shipper is confident that it would have been able to balance on a day, and on that day an emergency is called, where a virtual balancing debit is created by as the result of an Emergency Curtailment Quantity ("ECQ") being applied, it seems only reasonable this should be capable of being offset using an Storage Withdrawal Curtailment Quantity ("SWCQ").

However, this proposal is not limited to Day 1 of an emergency. The ramifications of implementation of this proposal extend beyond the transient effects of Day 1 of an emergency into the “steady-state” arrangements that would exist during a continuing Stage 1 emergency. The difference between the ECQ and the SWCQ is that where a “steady-state” Stage 1 emergency is in progress, no ECQ would be generated but the shipper would be able to generate a SWCQ for itself by nominating gas out of storage. Where a Stage 1 emergency is in progress for a number of days, a “storage-heavy” shipper could nominate at maximum out of storage as, by doing so, would be able to balance a portion of its demand at a cost of 30 Day SAP. Effectively, the shipper would get a low-cost balancing credit for the virtual input and later, once the emergency had been lifted, would still be able to take the same unit out of storage physically and gain a further balancing credit.

As Distribution stated earlier, virtual inputs result in physical imbalances which would have to be resolved by the residual balancer. The net effect would be balancing costs that would have to be smeared across the shipping community. Implementation of this proposal would present a cure for a shipper with gas locked in store, by allowing the value of that gas to be extracted during an emergency, but in meeting this objective, there is the potential for the benefits to be outweighed by the creation of perverse incentives and inappropriate cost targeting.

Ofgem must also be confident that by allowing units of gas in store to be used to balance twice, does not create an undue a skew on effective competition between shippers.

To summarise, provided the shipping community, as a whole, is acceptant of the potential for inter-shipper cost transfer, and Ofgem does not consider the side-effect detrimental to competition, then Distribution would be prepared to offer support for implementation.

Yours sincerely,

Declan McLaughlin