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Julian Majdanski
UNC Modification Panel Secretary
Joint Office of Gas Transporters
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Dear Julian

0052: Storage Withdrawal Curtailment Trade Arrangements in an emergency

Thank you for providing Scottish and Southern Energy plc with the opportunity to comment on the above urgent modification proposal.

Justification for urgent status

We have serious concerns that as a result of the Network Emergency Coordinator (NEC) Safety Case amendments approved earlier this year shippers could be prevented from accessing their storage flexibility when they most need it. In this regard we note with interest the comments made by NG NTS in its response to the consultation on UNC modification proposal 0035: "Transco NTS agrees that the Proposal may increase the potential for exposure to high gas prices for some Users that have placed reliance upon storage holdings to meet their contracted demands. However, this should be balanced against the industry benefit of ensuring that sufficient storage stocks are maintained for all Non-Daily Metered consumers (including domestic) and Priority Loads to meet their demands during a severe Winter period (1 in 50)".

We do not consider it acceptable that those parties with gas in store should be placed in a position such that they underwrite security of supply for all customers with no compensation for being unable to access their gas. As we are unable to propose a change to the NEC Safety Case to remove this provision, we believe that there are considerable merits in this proposal being implemented as soon as possible. This is because it will go some way to mitigate the imbalance risks shippers face of their gas in store being stranded in the event of a Stage 1 or Stage 2 Network Gas Supply Emergency (NGSE) being declared as a consequence of an actual or potential gas safety monitor breach.

The proposal

We agree that shippers affected by a NEC instruction to the Storage Operator to curtail its delivery of storage gas to the NTS should be able to make a claim for a Storage Withdrawal Curtailment Quantity (SWCQ) Trade for each day of a NGSE or potential NGSE. This SWCQ should be a quantity that could have reasonably been

nominated by the shipper for delivery at relevant Storage Connection Points. The proposal should apply to a partial or complete curtailment instruction.

In the absence of legal text, we suggest that the trigger for making such claims should make reference to the instructions issued by the NEC to the Storage Operator and shippers in accordance with the provisions of its Safety Case.

Trade and Trade Payment

We agree that the SWCQ Trade should be between the relevant shipper and NG NTS at the NBP and charged at a broadly neutral price. We believe that the most appropriate price is that of 30 day average SAP.

The transactions should be treated in the same way as Emergency Curtailment Quantity Trades; i.e. they should not feature in the calculation of system cashout prices.

We do not, however, agree with the proposer's suggestion that the aggregate of Storage Withdrawal Curtailment Quantity Trades should be treated as the opposite action to the aggregate of Emergency Curtailment Quantity (ECQ) Trades. It is our understanding that in the event of a potential (Stage 1) NGSE resulting from a GSMR Safety Monitor Breach (whether potential or actual) the NEC would first issue instructions to storage operators/shippers and then evaluate the response. It might be that emergency interruption would not be invoked.

The proposer also refers to an Emergency Curtailment Manager account. We do not think this exists and given our comments above, do not understand how it would work.

Calculation of the Storage Withdrawal Curtailment Quantity

We are pleased to see that the methodology to be used to calculate the SWCQ will be contained within the UNC.

It is appropriate that shippers would determine the volume of the trade, which would be conducted within day – this is essential so that the shipper can take account of the trade in terms of its overall energy imbalance position.

On the first day of the NGSE a shipper's best estimate will be the prevailing Input Nomination at the time the curtailment was called less the best estimate of the UDQI on the day. We presume that the legal drafting will make provision for circumstances where curtailment is called day ahead or part way through the day.

We also recall from discussions in the Transmission Workstream that there would need to be a change to the Input Nomination rules in the UNC to permit shippers to make nominations on subsequent days of curtailment. This does not seem to have been included in the amended proposal. We believe that this point is particularly relevant given that UNC TPD Section Q states that the emergency revocation notice has to be issued by 1000 on the preceding day. We interpret this to mean that if the emergency is called part way through the day i.e. after 1000 the emergency would not be revoked until D+2 and therefore shippers would need to make SWCQ claims for D+1 as well.

Submission of SWCQ Trades and Matching by Transco NTS

We note that the shipper has to notify NG NTS of the proposed SWCQ trade no later than 2300 on the Day to which the trade relates and that NG NTS is to use reasonable endeavours to match the trade within 1 hour. We do not understand that need for this restriction, when Trade Nominations can be made until 0400 on D.

Reconciliation

Whilst we can see the rationale for a process whereby the shipper warrants that the SWCQ claim it has made is appropriate, we are not entirely sure that it would be appropriate to provide such commercially sensitive information, for example, about individual storage stock holdings, to National Grid NTS. It would be helpful to understand the benefits to the process in providing such information.

Consequences of not implementing this Modification Proposal

We agree with the proposer that in the absence of implementing this proposal, there could be distortions in market behaviour. Players with rights to gas in store may be incentivised to nominate storage withdrawal early for fear that their gas might end up being locked in store. This position will be exacerbated as a result of the approval of urgent proposal 0044, whereby shippers now face SMP Buy cashout exposure in an emergency.

We also consider that the current arrangements effectively discriminate against storage as a risk management tool when the supply/demand position is tight. An individual shipper could face unmanageable risk as a consequence of the actions of others which in aggregate trigger a potential or actual GSMR Safety Monitor breach. This position is exacerbated by the uncertainty surrounding the conditions that would ultimately trigger an actual or potential GSMR Safety Monitor breach, which we understand are set out in NG NTS's safety case.

Implications for operation of the system

We would appreciate some clarity from NG NTS regarding the action it would take in the circumstance of a potential or actual GSMR safety monitor breach. We note that TPD Section Q specifically states that NG NTS would take no action to protect the monitors, whereas the NEC Safety Case 4.3.2 suggests that the primary transporter will have taken "all appropriate balancing actions and put into effect all practicable measures to protect the GSMR safety monitor.

Implications for UK Link System

We are also unclear whether there will be any systems implications – will a new reason code be required to identify the SWCQ trades? As stated above, will there be a need to facilitate Input nominations on subsequent days of curtailment?

Legal Drafting

In the event that it is determined that this proposal should be implemented, we consider it important that parties have an opportunity to review the legal text.

Conclusion

SSE supports implementation of this proposal as soon as reasonably practicable. We consider it to be a pragmatic means of mitigating the risks imposed by the NEC safety case changes on parties that have purchased storage services for this winter.

I hope that our comments have been helpful. Should you wish to discuss any of the points raised in our response, please do not hesitate to contact me in the first instance.

Yours sincerely

Katherine Marshall
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Scottish and Southern Energy plc