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Response to UNC Modification Proposal 067 Compensation payments to Users whose gas flows are curtailed into the system following instructions received from the NEC

Dear Tim

E.ON supports this proposal.

As a result of the implementation of modification proposal 050 and the uncertainty this creates, with respect to the onset of a Gas Deficit Emergency – GS(M)R Safety Monitor Breach, and recent changes to the NEC Safety Case, which will allow (albeit inconsistent with the UNC) gas to be curtailed at Stage 1 of an emergency, the economics of investment in storage are weakened and contracts already in place for storage this winter have been undermined.

Whilst we consider that a review of the NEC Safety Case is required, with full shipper consultation, as part of a more holistic review of all gas emergency arrangements, including a review of Safety Monitors, in general, this proposal goes some way to address concerns with the arrangements as they currently stand, with respect to the curtailment of storage gas.

We agree with Ofgem, in their decision letter to modification proposal 035 and with the majority of the respondents to the same proposal, that enabling the NEC to maximise or curtail storage in Stage 1 of a GS(M)R Monitor Breach Emergency without any form of compensation creates perverse incentives for storage users to withdraw gas in advance of a GS(M)R Monitor Breach Emergency. We also agree that this would not operate to achieve the efficient and economic operation of the system, as these perverse incentives increase the risk that the system will go into an emergency faster than would otherwise have been the case or in circumstances where an emergency would otherwise have been avoided.

This proposal does therefore, better facilitate relevant objective A11.1 (a) the efficient and economic operation of the pipe line system, through minimising the

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likelihood of any perverse incentives, as described above and thereby averting a gas emergency.

This proposal will also better facilitate relevant objective A11.1 (d) the securing of effective competition between relevant shippers and between relevant suppliers, through ensuring those Users, which have invested in storage to meet a proportion of their demand, are not unduly discriminated against, in favour of non-storage Users.

It is with noting that this proposal has been designed to work with or without modification proposal 052 and whilst more robust arrangements might be achieved through the implementation of both modifications, we have, however, endeavoured to consider this proposal 067 based on its own merits as any proposal must be considered in light of how it better facilitates the relevant objectives.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

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