

CODE MODIFICATION PROPOSAL No. 0068

"Extending established Uniform Network Code governance arrangements to include the Safety Monitor Referred to in Section Q of the Code"

Version 2.0

Date: 25/11/2005

Proposed Implementation Date:

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

This Proposal is straight forward in nature and therefore little further development is felt necessary. It is proposed that it should proceed directly to consultation.

This year's changes to the Safety Case, MOD0044 and the recent unexpected Storage Monitor levels have introduced unexpected new incentives and financial risks to Storage Users for this winter, this proposal also addresses a number of issues raised in Ofgem's decision letter for MOD0035. The uncertainties associated with current arrangements also act to undermine the value of storage services and may act as a disincentive to investment in existing and new storage facilities. This modification will allow storage Users to have greater certainty over the availability of this winter's and future winters' storage supplies and help to ensure that User's domestic supply decisions are not unduly influenced by unilateral, un-consulted and un-incentivised decisions made by the NEC.

In order to provide sufficient time for the industry to put the required arrangements in place for this coming winter Centrica Storage Limited believes that the decision on this Proposal should be provided as a matter of urgency.

Nature and Purpose of Proposal (including consequence of non implementation)

The Storage Safety Monitors are currently derived by the Transporter using opaque methods and assumptions, and can be changed unilaterally without consultation. The Transporter is not incentivised to make economic decisions and also has interest in short duration facilities.

We propose that the Storage Safety Monitors change process would become part of the UNC change Procedures. This modification proposal also proposes that the transporter will publish the derivation method and assumptions on the Joint Office of Gas Transporters website. Any document revisions would be given a version number with earlier versions continuing to be made available.

Where the Transporter proposes to change the Monitor derivation method and/or the Storage Monitor Levels, such changes would be subject to UNC modification processes.

This proposal will help ensure transparency and provide an appropriate governance mechanism for the Storage Monitors.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

We believe that this Proposal would, if implemented, better facilitate the Relevant Objectives specified within the Gas Transporters Licence by improving transparency and accountability of a mechanism which has a significant impact on the market. This will contribute both to the efficient and economic operation by the gas transporters of their pipeline system and increase the certainty and confidence of all UNC parties, thereby facilitating effective competition.

We believe that this proposal would, if implemented, provide better incentives for suppliers to secure domestic customer supply security standards by ensuring that Safety Monitor Levels do not unduly influence and act to distort peak gas supply economics.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

a. Proposed implementation timetable

We propose that this modification goes straight to consultation.

b. Proposed legal text

To be provided at an appropriate point in the consultation process

c. Advantages of the Proposal

This proposal will add process to highlight and prevent any undue discrimination which the Transporter may favour upon the Storage Monitor Levels for its own short duration facilities.

This proposal will add process to ensure the Safety Monitor Levels derivation process gains the benefit of the knowledge and expertise of the whole industry, resulting in more accurate and trusted Monitor Levels.

This proposal will ensure that alternative market mechanisms are considered in the Storage Monitor Derivation, enabling better economically efficient Monitor Levels to be derived.

If monitor levels are set too high then they can cause a price cap within the futures market and can prevent the market from realising the risk value of peak supplies. This will also distort correct price signals for future infrastructure investment. This modification will prevent undue interference with the market, enable reasonable return on new investments and prevent excessive gas pricing by enabling sufficient supplies.

This modification will ensure that all relevant objectives can be considered in a balanced manner when deriving the Storage Monitor Levels.

d. Disadvantages of the Proposal

We believe that the speed of implementation of a Storage monitor Level change may be increased however NGT, acting prudently, should not leave such changes so late as to create a system security concern. Rapid code change mechanisms already exist which could be used to address any urgent change.

e. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

We believe that this modification will improve the security of supply by enabling more industry expertise to be involved in the derivation of the security monitors and reducing the risk that the Safety Monitor process will act as a disincentive to investment in existing and new storage facilities.

f. The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. implications for operation of the System

We do not believe this Proposal, if implemented, would adversely affect the operation of the System.

ii. development and capital cost and operating cost implications

We believe that the additional costs of governing each Storage Monitor Change will be offset by the benefits in improved market efficiency.

iii. extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

We do not believe this Proposal, if implemented, requires the recovery of any additional costs.

iv. analysis of the consequences (if any) this proposal would have on price regulation

We do not believe this Proposal, if implemented, would have any consequences on price regulation.

g. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

We believe that this proposal may help reduce the level of contractual risk for each Transporter by improving transparency and governance.

h. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

We do not believe that there will be any impact on the UK Link System if this Proposal were to be implemented.

i. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

We believe that the additional costs of governing each Storage Monitor Change will be offset by the benefits in improved market efficiency. The level of contractual risk will be reduced by governance of a mechanism which has a direct impact on gas pricing and storage Users.

Code Concerned, sections and paragraphs

UNC TPD

Section Q

Proposer's Representative

Stuart Waudby (Centrica Storage Ltd (CSL))

Proposer

Stuart Waudby (Centrica Storage Ltd (CSL))

Signature

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