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

Urgent Modification Proposal 0071: User Compensation for NEC Storage Curtailment

SSE Hornsea Ltd is concerned that NG NTS has issued a further modification proposal seeking to make changes to emergency arrangements at this late stage. We believe the best way forward is the full and considered review of emergency arrangements proposed by Ofgem in its decision letter of 2nd December. Mod 0052, as implemented, received broad support from the industry and in our view, represented a reasonable interim arrangement.

We question why NG NTS is seeking to weaken the incentive on Storage Users to retain gas in store over the coming winter. We do not agree with the NG NTS assertion that the current arrangements reduce the incentive on Users to contribute towards a physical daily balance. Is it not in fact the NEC who would be preventing Users from contributing to their physical position by imposing minimum inventory levels and curtailing withdrawals?

In its proposal, NG NTS envisages a winter of multiple curtailments. If multiple curtailments are a possibility, then weakening the current compensation mechanism will restore the perverse incentive that Mod 0052 sought to address immediately after the first curtailment is lifted. With the compensation mechanism effectively removed, Users would then be incentivised to immediately withdraw their gas.

We agree that some other compensation to Storage Users may result from multiple curtailments, but only insofar as the User will have saved the cost of physically withdrawing and re-injecting the gas in store. Furthermore, the proposal places another questionable incentive on Users if the difference between being compensated and not being compensated is greater than the cost of withdrawing and re-injecting gas. It should be remembered that simultaneous injection and withdrawal nominations can be netted-off and provide Users with an unlimited ability to churn volume through storage without any physical movement of gas occurring.

In view of the many conflicting interests and incentives that surround this whole issue, we recommend that this proposal be rejected. We also recommend that a thorough review of emergency arrangements be undertaken in consultation with all interested parties before the industry is asked to consider any further proposals to change the current arrangements.

Yours sincerely

Duncan Williams
Commercial Operations Manager