

Modification Report
User Compensation for NEC Storage Curtailment
Modification Reference Number 0071/71a
Version 4.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because Ofgem considered that if the proposed changes to the arrangements were "treated as non-urgent, this could have an impact on security of supply later this winter." Also, Ofgem considered that if this Modification Proposal were not treated as urgent "there may be a likelihood of significant commercial impact on industry parties." Ofgem also pointed out that the granting of urgent status and adherence to the timetable "would ensure that the proposal is in a position to be decided upon and if appropriate implemented as early as possible this winter, particularly ahead of the Christmas period when, assuming appropriate incentives exist for storage Users, gas may be available for injection into store, potentially alleviating pressures later in the winter."

Procedures Followed:

The procedures agreed with Ofgem for this Proposal are:

Sent to Ofgem requesting urgency	09/12/2005
Ofgem grant urgent status	12/12/2005
Proposal discussed at Transmission Workstream	14/12/2005
Proposal issued for consultation	15/12/2005
Closeout for representations (2 business day consultation)	19/12/2005
Mod Report issued to Modification Panel	20/12/2005
Modification Panel Recommendation	21/12/2005
Ofgem decision expected	22/12/2005

1. The Modification Proposal

Proposal 0071 was as follows:

"Defined Terms. Where UNC defined terms are included within this Proposal the terms shall take the meaning as defined within the UNC. Key UNC defined terms are highlighted by an asterisk (). This Proposal, as with all Proposals, should be read in conjunction with the prevailing UNC.*

This Proposal seeks to replace the Storage Withdrawal Curtailment Quantity Trade* introduced in Modification Proposal 0052 and in its place introduce a storage curtailment compensation payment to Users* affected by NEC storage curtailment activity during a Network Gas Supply Emergency* or a Potential Network Gas Supply Emergency*.

National Grid NTS understands that the aim of UNC Modification Proposal 052 is to ensure that Users* whose storage withdrawals have been curtailed as a result of the actions of the NEC*, are kept whole by obliging National Grid NTS to trade a quantity of gas equivalent to that curtailed. In consideration of this trade National Grid NTS would be paid 30 day average SAP* by the User. Through these arrangements, Users can also be effectively compensated for the same quantity of gas on multiple occasions as the volume that can be claimed for is fixed at the beginning of each curtailment action irrespective of whether compensation has been received for the same quantity of gas in an earlier curtailment incident. Title to the gas in store is unaffected by the trade and, as well as potentially receiving multiple incidence of compensation for a quantity of stored gas, a User will also be able to benefit from the value of the gas when it is actually withdrawn.

National Grid NTS considers that Modification Proposal 0052 may distort the market in favour of Users affected by the actions of the NEC in relation to storage curtailment, potentially reducing the incentive on these Users to contribute to a physical daily balance. This may lead to an increase in the activity of National Grid NTS in its role as the residual balancer. Indeed National Grid NTS believe that in a severe winter (1 in 50) the costs of such actions by the residual balancer may approach the £600 million, highlighted by Ofgem in its document: The Review of Top Up arrangements in Gas: Conclusions Document.

Further, the fact that a User could receive multiple compensation payments for the same gas in store may encourage inappropriate commercial behaviours.

The Proposal

The aim of this Proposal is to ensure that Users, affected by a NEC requested curtailment of Storage, are appropriately compensated whilst at the same time retaining an appropriate incentive to balance on the Day*. The level of compensation paid to the Storage User for the curtailment actions of the NEC should recognise that rights attached to the curtailed gas in storage are retained by the User, and that this gas will still be available for the User to withdraw at a later date. The compensation should therefore reflect the cost of putting gas into Storage, holding it there and subsequently delivering this gas to the NBP. National Grid NTS proposes that an appropriate approximation of this amount is the average summer SAP* price plus the fixed differentials (which are based upon storage costs) between SMPBuy* and SMPSell*.

The Proposal also seeks to remove the Storage Withdrawal Curtailment Quantity Trade introduced in Modification Proposal 0052 and in its place introduce a storage curtailment compensation payment, which would be calculated as follows;

$$\text{SAP} - (\text{ASSAP} + 0.0611\text{p})$$

- Where, ASSAP (Average Summer SAP) = is the volume weighted average of the end of Day SAP prices between 1st April and 30th September inclusive, in the previous Gas Year*.

- 0.0611p is the minimum differential between SMPBuy and SMPSell currently within UNC Section F 1.2. (This was originally conceived, in Network Code Modification Proposal 0433, as being representative of the cost of transferring gas into and out of storage.)
- It is also proposed that where the storage curtailment compensation payment calculated above is negative, it shall default to zero.

For each day of a curtailment period Users would be required to submit to National Grid NTS a Curtailment Quantity Claim (CQC) for each relevant Storage Connection Point* in the same manner as that provided for within Modification Proposal 0052. The CQC should be received by National Grid NTS before 04.00 on D* (this is a change to the time stipulated in Modification Proposal 0052). National Grid NTS will then calculate the storage curtailment compensation payment and notify the amount calculated to that User by 17:00hrs on the next Business Day*.

The maximum quantity of gas in store that a particular User could claim compensation for, in relation to each Day in a particular Storage Year* and each Storage Facility* within a Storage Facility Type*, would be the lesser of;

- The User's quantity of gas held in store at the time of the first instance of storage curtailment at a relevant storage facility within a category plus the User's aggregate storage injection quantities less the User's aggregate storage withdrawal quantities less the User's aggregate quantity of storage curtailment claims made subsequent to the first instance of storage curtailment in relation to that facility, and;
- The User's withdrawal rights at the relevant storage facility.

Again this is a change to the arrangement introduced by Modification Proposal 0052, which treated each period of curtailment as a separate compensation period.

The CQC shall include the following details for each Storage Connection Point in respect of which a claim is being submitted:

- Identity of the User (i.e. name and ID)
- Storage Connection Point (i.e. name and ID),
- Name of the Storage Operator*,
- Storage Allocation Agent* if different from the Storage Operator.
- Opening stock of gas held by that User in the Storage Facility at the start of the first Day of the initial storage curtailment,
- The prevailing Input Nomination* of that User at the time the storage curtailment was requested,
- The quantity of gas on which a storage curtailment compensation payment has been made to that User in respect of that facility during the Gas Year to date,
- Quantity of gas injected into that storage facility by that User since the first day of initial storage curtailment in that Storage Year.
- Quantity of gas withdrawn from that storage facility by that User since first day of the initial storage curtailment in that Storage Year.

It is proposed that all storage curtailment compensation payments shall be funded from Balancing Neutrality*. The above arrangements will ensure that Users are only

compensated for the curtailed gas on one occasion in each winter period. Users shall be prevented from receiving multiple payments for curtailment of the same gas.

For example:

A User that has 10 units of gas in store and has 1 unit curtailed for a period of 5 days will receive compensation on 5 units. If later in the same winter there is a further curtailment of storage the User may still have 10 units in store but regardless of his intentions or the duration of any storage curtailment, the User will receive no more than a further 5 units of compensation. Clearly if the User had injected additional gas into storage between the first and any subsequent curtailment period, then they may be entitled to receive a storage curtailment compensation payment for each unit of “new gas” if appropriate.

Examples for the Calculation of Storage Curtailment Compensation Payments over 2 Curtailment Periods

Average Summer SAP	15											
Fixed differential	1.79											
	1st Curtailment Period						2nd Curtailment Period					
Day	1	2	3	4	5	6	26	27	28	29	30	31
SMP _{Buy}	150	160	140	80	95	75	55	20	21	32		
SAP	120	150	135	75	94	73	54	18	19	31		
Physical Gas in Store	100	100	100	100	100	100	145	145	145	145		
Curtailed Quantity	10	30	5	10	80	50	20	5	30	10		
Quantity on which compensation has already been paid	0	10	40	45	55	100	100	120	125	145		
Quantity qualifying for compensation	10	30	5	10	45	0	20	5	20	0		
SAP - (ASSAP+fd)	103.21	133.21	118.21	58.21	77.21	56.21	37.21	1.21	2.21	14.21		

example represented in p/therm

Any disputes that relate to the calculation of any storage curtailment compensation payment would follow the normal UNC disputes process set out in Section A of the UNC – General Terms, Dispute Resolution."

Proposal 0071a was as follows:

"In approving modification 0052 Ofgem stated in their decision letter;

“Modification proposal 0052 will introduce compensation which removes shipper’ imbalance exposure related to storage curtailment via a deem trade between affected shipper and NG NTS. Ofgem considers that although this introduction better facilitates the relevant objectives of the UNC as opposed to the existing position, it may be more appropriate to receive financial payment should their storage flows be curtailed.....”

They add;

“Furthermore, Ofgem considers that it may be appropriate for any compensation mechanism associated with curtailment to reflect the difference in the value of gas in store at the time of curtailment and its value once the curtailment has been lifted.”

E.ON UK as the proposer of Modification 0052, which this alternative proposal now seeks to amend, was of the view that both the form and level of compensation provided for under Modification 0052 was fit for purpose for winter 05/06 and that any necessary refinements would be best considered through a less rushed consultation process next spring.

We do however recognise that under certain circumstances the level of compensation offered under Modification 0052 may be inappropriate. Compensation may either be too great or too little depending on the value of the gas that a shipper continues to hold

in store at the time the emergency ceases. Clearly this valuation of gas in store will be affected by the time of year the shipper regains control over its gas in store under post-emergency conditions.

Currently the cost of compensation is borne by the shipping community in general and any inappropriate, untargeted ‘smearing’ of such costs may ultimately affect how shippers act in the market. This may indirectly impact shipper incentives to balance.

Although NG NTS recognises that the core purpose of Modification 0052 is “*to ensure that Users whose storage withdrawals have been curtailed as a result of the actions of the NEC are kept whole*”, their original proposal does not reflect this. In our view the original proposal would, more often than not, systematically under-compensate storage users. The E.ON UK alternative instead seeks to provide a more balanced solution that is demonstrably more ‘cost reflective’ because valuations of gas in store would reflect wholesale prices at the time shippers become fully able again to exercise rights to withdraw gas from store.

We agree with NG NTS that it is important that shippers should not be able to claim compensation for the same curtailment quantity during Network Gas Supply Emergencies. Modification 0052 only considered one continuous NGSE and as such did not foresee such multiple claims. It is difficult for us to assess how credible the scenario of multiple emergency curtailment periods described by NG NTS is, but we are happy to support this element of the NG NTS proposal to remove the identified anomaly. It is particularly appropriate that, ‘opening stock’ levels for each curtailment period reflect injections that may have taken place between curtailment periods.

Any failure to ensure that adequate compensation is made available to shippers who find themselves unable to use storage in an emergency will threaten security of supply as shippers will be perversely incentivised to deplete stocks of gas in store at faster rates than would otherwise be the case.

The Proposal

E.ON UK sets out below the changes it believes are necessary to NG NTS’s original proposal. The elements of the NG NTS proposal we do not comment on should be assumed to form part of this alternative proposal.

The main purpose of Modification 0052 was to ensure, broadly speaking, that affected shippers are kept financially neutral to the storage withdrawal curtailment actions of the NEC during an NGSE. It was originally proposed because Modification 0044 “*Revised emergency cash-out and curtailment arrangements*”, had radically changed the imbalance cash-out arrangements under emergency conditions. Allowing the NEC to exercise a ‘free option’ to curtail the use of storage under such circumstances was seen to be manifestly unreasonable and a major distortion to the market for ‘peak gas flexibility’.

Of fundamental concern was the fact that without adequate compensation shippers could be perversely incentivised to withdraw gas from store earlier than might otherwise have been the case in the run up to a possible gas emergency for fear that their gas would be ‘locked in store’ by the NEC. This could bring forward an emergency or cause an emergency that might otherwise be avoided.

It was recognised in the development of Modification 0052 that the System Marginal Buy Price (SMPbuy) minus 30 day System Average Price compensation may not precisely offer the ‘right’ level of compensation to shippers adversely affected by

storage withdrawal curtailment. Nevertheless the consensus amongst the shippers who helped develop the proposal in the workstream was that it was broadly acceptable and was certainly no more or less arbitrary than the price of Emergency Curtailment Quantity Trade transactions introduced under Modification 0044.

Unlike the NG NTS's original proposal this alternative seeks to provide **full and fair** compensation to shippers that find themselves less able to balance their positions in an emergency. With the approval of Modification 0052 the NEC may have lost its 'free option' to intervene as it sees fit in the market, but this should not mean that NG NTS should be allowed to rush through a proposal to replace a reasonably priced (i.e. Modification 0052) option with a 'cheap' option. It would seem that the best way to keep the cost of exercising such options down would be financial incentives on NG NTS. This would help dissuade the NEC from exercising storage curtailment, and the detrimental affect this has on the whole commercial balancing regime, the market for peak flexibility and the overall wholesale gas market. We trust that Ofgem will oblige NG NTS to bear a proportion of the costs of compensating shippers in future, rather than requiring the whole amount to be borne by shippers who will ultimately pass through these costs to customers.

E.ON UK's alternative proposal introduces a post emergency adjustment to the Storage Withdrawal Curtailment Quantity compensation (see note1) value established under Modification 0052, to reflect the value of gas in store. (Note 1 In E.ON UK's view the actual form (rather than the value) of compensation makes no difference to incentives to balance. The financial impact on shippers is just the same. Our preference would however be to stick with the existing adjustment to a shippers balance position as this is easier for shippers to account for this through a trade process. It also explicitly records the NEC's intervention in the market rather 'hiding' this transaction in the form of a direct compensation payment. In our view it is extremely useful to record the adverse affect such actions have on shippers' ability to balance in the hope that the NEC will decide to avoid such intervention. Retention of the SWCQ Trade concept may also help facilitate design of an appropriate storage curtailment incentive mechanism.)

To help avoid the possibility of business failures due to cash-flow/credit cover problems resulting from excessive imbalance exposures that might otherwise not immediately be offset by storage curtailment compensation payments, we propose that the initial 'up-front' (SMPbuy – 30 day SAP) compensation payment introduced under Modification 0052 would be retained(see note 2) A reconciliation process would adjust the actual amount paid after the end of the NGSE. *(Note 2 But subject to the direct compensation payment set out in NG NTS's original proposal, rather than the Modification 0052 imbalance adjustment process.)*

If the value of gas in store post a NGSE were greater than the 30 day SAP then the shipper would pay the excess multiplied by the SWCQ for a given day back to the system (i.e. refunds would be made to all shippers via neutrality depending on their usage of the system on that day). If the value of gas in store post an emergency is less than the 30 day SAP then the shipper would get paid the shortfall from the system (i.e. additional payments paid by all shippers via neutrality depending on their usage of the system on that day).

The value of gas in store would be:

30 day SAP PE - 0.0611p

Where

30 day SAP PE = Post Emergency System Average Price over the first 30 consecutive Days of normal market operations following a Network Gas Supply Emergency or series of Network Gas Supply Emergencies. It is the value of the arithmetic mean of the System Average Prices determined under Section F1.2.1 (c) but by reference to the first 30 consecutive Days follow cessation of a Network Gas Supply Emergency.

Where there are no market actions from which to derive a SAP value for a given Day this value shall be excluded from the calculation. In effect if a SAP value could not be determined for one Day the averaging shall be based on SAP values over 29 Days instead.

0.0611p is the minimum differential between SMPbuy and SMPsell currently set out within UNC Section F1.2. This was originally conceived in Network Code Modification 0433 as being representative of the cost of transferring gas into and out of storage.

Comparison of Compensation Amounts paid under the NG NTS proposal and E.ON UK alternative proposal

Scenario 1 - A 'rapid' emergency ending in January

A 'rapid' emergency may result in a large difference between SMPbuy and prevailing SAP prices at the time the emergency is called. This example assumes the emergency ended at the end of January. With SMPbuy = £5/therm, SAP = £2/therm, 30 day SAP = £1.50/therm ASSAP = 30p/therm and 30 day SAP PE = £2/therm then the position is as follows

Position	Compensation
Compensation pre 0052	£0 /therm
Compensation post 0052 based on direct imbalance exposure	£5 - £1.5 = £3.50/therm
Compensation offered under NG NTS proposal	£2 - 30p - 1.7p = £1.683/therm
Compensation offered under E.ON UK alternative	£5 - £2 - 1.7p = £2.983/therm

Scenario 2 – A 'rapid' emergency ending in April

If the 'rapid' emergency were to end at the end of April the prices could be SMPbuy = £5/therm, SAP = £2/therm, 30 day SAP = £1.50/therm ASSAP = 30p/therm and 30 day SAP PE = 50p/therm then the position is as follows

Position	Compensation
Compensation pre 0052	£0 /therm
Compensation post 0052 based on direct imbalance exposure	£5 - £1.5 = £3.50/therm
Compensation offered under NG NTS proposal	£2 – 30p - 1.7p = £1.683/therm
Compensation offered under E.ON UK alternative	£5 – £50p – 1.7p = £4.483/therm

Scenario 3 – A ‘progressive’ emergency ending in January

A more progressive emergency may result in a relatively small difference between SMPbuy and prevailing SAP prices at the time the emergency is called. This example assumes the emergency ended at the end of January. With SMPbuy = £5/therm, SAP = £4.50/therm, 30 day SAP = £2.00/therm ASSAP = 30p/therm and 30 day SAP PE = £2.00/therm then the position is as follows:

Position	Compensation
Compensation pre 0052	£0 /therm
Compensation post 0052 based on direct imbalance exposure	£5 - £2 = £3.00/therm
Compensation offered under NG NTS proposal	£4.5 – 30p - 1.7p = £4.183/therm
Compensation offered under E.ON UK alternative	£5 – £2 – 1.7p = £2.983/therm

Scenario 4 – A ‘progressive’ emergency ending in April

If the ‘progressive’ emergency were to end at the end of April the prices could be SMPbuy = £5/therm, SAP = £4.50/therm, 30 day SAP = £2.00/therm ASSAP = 30p/therm and 30 day SAP PE = 50p/therm then the position is as follows

Position	Compensation
Compensation pre 0052	£0 /therm
Compensation post 0052 based on direct imbalance exposure	£5 - £2 = £3.00/therm
Compensation offered under NG NTS proposal	£4.5 – 30p - 1.7p = £4.183/therm
Compensation offered under E.ON UK alternative	£5 – 50p – 1.7p = £4.483/therm

It is clear that any fair compensation mechanism designed to keep shippers financial positions whole as a result of the actions of the NEC must make reference to a shipper's likely imbalance costs (i.e. the SMPbuy price). In addition it is reasonable to consider that any valuations of gas in store must consider the market price shippers could reasonably get for the withdrawal and sale of that gas in the period immediately following a NGSE. If this is in the winter compensation would necessarily be less, if in the summer compensation might be expected to higher."

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The proposer of **Modification Proposal 0071** suggested that "this Proposal, if implemented, may better facilitate the following relevant objective as set out in our GT Licence:

In respect of paragraph 1.a): National Grid NTS considers that this Proposal may improve *"the efficient and economic operation of the pipe-line system"* by ensuring Users are incentivised to balance their own portfolios by contributing to the physical balance of the Total System and therefore help ensure that the market activity of the residual balancer is restored to the more efficient level it was at prior to the implementation of UNC Modification Proposal 0052."

BGT expressed the view that implementation would not further this relevant objective *"as it would severely undermine the prudent provision made by a User in anticipation of the requirement for gas in storage."* BGT also applied this argument to paragraph 1 e).

EDFT made the point that *"without adequate compensation there is a perverse incentive on Users to prematurely withdraw gas from store which provides an increase in the risk of an emergency occurring,"* and suggested that the UNC following implementation of Modification Proposal 0071 would *"not provide adequate compensation and as a result will place the market in greater risk of an emergency being called."* In expressing strong disagreement with the Proposer's statement EDFT stated that the *"Proposer has omitted to comment on the behaviour of Users prior to an emergency. In our opinion, any change to the UNC should limit the likelihood of an emergency occurring rather than, arguably, encouraging particular behaviours once the emergency has been called. The Proposer suggests that this proposal would maintain the market activity of the Residual Balancer at efficient levels; this is wholly inaccurate as it is likely that the effect of this Proposal would be to exacerbate balancing actions to counter premature storage withdrawals."*

NGUKD, in respect of this relevant objective, and in support of Proposal 0071 stated that *"compensation should be fair, not over stated and continue to require shippers to balance their positions to the best of their ability."*

In respect of paragraph 1 d): E.ON suggested that if Proposal 0071 were implemented, *"shippers will be encouraged to use other forms of perhaps less economic flexibility in preference to storage under 0071, because they are not appropriately compensated for helping the system when the NEC requires shippers to keep gas in store."*

SGN pointed out that compensation arrangements *"proposed under 0071 appear to be discriminatory, offering a lower value for gas in storage to the detriment of storage Users and to the benefit of all other Users."*

In respect of paragraph 1.e): The Proposer considered “that this Proposal might improve *“the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers”* by providing appropriate compensation to Users affected by a storage curtailment whilst ensuring that each User retains an incentive to balance within the Day.”

E.ON suggested, by referencing the examples with the Alternative Proposal, that it did not consider that full and fair compensation would apply *“under all circumstances”* if Proposal 0071 were implemented.

NGUKD, in respect of this relevant objective, stated that the mechanism suggested in Proposal 0071 would prevent *“the worst of any potential reliance on virtual balancing and reduces the amount of money that may be smeared through neutrality”*

The proposer of **Alternative Modification Proposal 0071a** suggested that “this alternative Proposal, if implemented, will better facilitate the following relevant objective as set out in NG NTS’s GT Licence:

In respect of paragraph 1.a): E.ON UK considers that this Proposal will improve *“the efficient and economic operation of the pipe-line system”* by avoiding inappropriate ‘smearing’ of compensation costs across all shippers where this is not justified, Inappropriate targeting of such costs may ultimately affect how shippers act in the market. This may indirectly impact shipper incentives to balance.”

NGNTS were *“unable to support this view, as 0071a does not seek to change the existing smearing process. The proposed costs generated as part of both 0071 and 0071a would be smeared through the prevailing Balancing Neutrality Mechanism.”*

SSE agreed with the Proposer that implementation of Alternative Proposal 0071a would *“improve the efficient & economic operation of the pipeline system by avoiding inappropriate smearing of compensation costs where this is not justified. Inappropriate targeting of costs may affect market behaviour and hence incentives to balance.”*

In respect of paragraph 1 d): SSE stated that implementation would *“ensure that full & fair compensation to shippers affected by storage curtailment will assist in securing effective competition between shippers. In particular:*

- *appropriate compensation will encourage further use of storage and potential subsequent investment in storage as flexibility from the UKCS declines. Failure to approve this mod but approval of proposal 71 may deter investment in storage and usage of other forms of flexibility that are less economic.*
- *Under the scenarios developed by the proposer it has been demonstrated that perverse incentives may be re-introduced if modification 0071 replaced modification 0052.*
- *Future supply business failures could continue if shippers are not fully & fairly compensated for storage curtailment. Thus, having a detrimental impact on competition in shipping & supply.”*

The Proposer of Alternative Modification Proposal 0071a also stated that:

“In respect of paragraph 1.e): E.ON UK considers that this Proposal will improve *“the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers”* by providing **full and fair compensation** to Users

affected by a storage curtailment, it will encourage such shippers to maintain adequate stocks of gas in store to maintain supplies to such customers.

In addition E.ON UK considers that the full and fair compensation to shippers affected by storage curtailment will help *securing effective competition between relevant shippers*.

Shippers will be encouraged to use other forms of perhaps less economic flexibility in preference to storage because they are not appropriately compensated for helping the system when the Emergency Procedures require shippers to keep gas in store. Ultimately this may help damage the prospect for further investment in storage capacity which the GB so desperately needs to support long-term security of supply. Shippers are nevertheless acutely aware of their wider obligations to customers, which may lead them to put a brake on how fast gas stocks are reduced. It would be wrong for prudent shippers who have chosen to rely heavily on storage capacity to meet peak supplies to customers to be unduly discriminated against, just because less prudent shippers have decided to withdraw gas from storage at much faster rates. By addressing the perverse incentive that penalises shippers from maintaining adequate stocks of gas in store, prudent shippers are less disadvantaged than before. Thus implementation of this proposal will promote greater and more effective competition in the shipping and supply of gas.

It is important to note that under a number of realistic emergency scenarios NG NTS's proposal will reintroduce the perverse incentives in the regime that were largely mitigated by the implementation of Modification 0052.

The recent period of high gas prices has resulted in several shippers going out of business, in part because of their inability to cover their imbalance exposure. Failure to fully and fairly compensate shippers for storage curtailment could in future very easily contribute to further business failures that might otherwise be avoided. This may be considered to be detrimental to competition in shipping and supply."

SSE also pointed out that implementation would *"provide reasonable economic incentive to meet customer supply security by providing full & fair compensation to shippers affected by storage curtailment. Thus, encouraging shippers to maintain appropriate stocks of gas in store to maintain supplies to customers."*

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

The proposer of **Modification Proposal 0071** suggested that by:

"ensuring that Users retain an incentive to balance on the day" short term security of supply would not be adversely impacted by implementation; and by

"compensating Users for the curtailment of the gas they hold in storage and thereby helping to protect the Safety Monitors*" long term security of supply would be enhanced by implementation.

NGNTS in its response applied these statements to Alternative Proposal 0071a as well.

Referring to its belief that implementation of Proposal 0071 would lead to shippers using *"other forms of perhaps less economic flexibility in preference to storage"*, E.ON concluded that ultimately *"this may help damage the prospect for further investment in storage capacity which the GB so desperately needs to support long-term security of supply."*

In respect of Proposal 0071, EDFT believed that *“the effect of this proposal would be to undermine security of supply. Firstly, it will actively encourage storage users to withdraw gas from storage prematurely and secondly, because the value of storage is potentially unreasonably undermined, it will deter the future investments in storage facilities.”*

SGN believed that implementation would reintroduce *“perverse incentives by linking compensation to a different period in time and different market dynamics. This could significantly undermine the value of gas in storage. Users would once again be encouraged to withdraw gas from storage as soon as they believe the system is showing signs of difficulty this winter. They might also reconsider the value of having gas in storage for future years. We believe this would be to the detriment of security of supply.”*

SSE stated, in support of its opposition to Proposal 0071, that any *“failure to ensure adequate compensation is made available will threaten security of supply as shippers will be perversely incentivised to deplete stocks of gas faster than normal in order to at least withdraw the gas in winter rather than at the end of winter.”* SSE also suggested as a consequence of implementation that the NEC would *“have a cheap call option to manage emergencies that does not reflect the true value of the option. This is inherently damaging to the UK in the long run. Failure to adequately compensate the curtailed storage will devalue storage products and may make future storage investment uneconomic.”*

The SME would wish to point out that any net balancing costs, including the cost of exercising any “cheap call option” would be met by Users through Balancing Neutrality and not by the NEC.

In commenting on Proposal 0071, SSEHL questioned 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?”*

The proposer of **Alternative Modification Proposal 0071a** suggested that *“this alternative seeks to provide full and fair compensation to shippers that find themselves less able to balance their positions in an emergency.”* Reviewing the situation prior to the implementation of Modification Proposal 0052 and, by implication, the position that might apply following implementation of Modification Proposal 0071, the proposer stated the fundamental concern that *“without adequate compensation shippers could be perversely incentivised to withdraw gas from store earlier than might otherwise have been the case in the run up to a possible gas emergency for fear that their gas would be ‘locked in store’ by the NEC. This could bring forward an emergency or cause an emergency that might otherwise be avoided.”*

SSE, in support of Alternative Proposal 0071a, stated that it addressed two issues:

- *“SSE believe that any fair compensation mechanism designed to keep shipper’s financial positions whole as a result of the actions of the NEC must make reference to a shipper’s likely imbalance costs
i.e. upfront payment of the SMP_{buy} price.*

- *Also it is reasonable to expect that any valuations of gas in store must consider the market price shippers could get for the withdrawal of gas immediately following a NGSE*

i.e. the proposed 30 day SAP_{PE} following curtailment of the NGSE, with refunds via neutrality if required.”

SSE stated that the “SMP_{buy} price compensation may not be precisely correct as compensation for shippers adversely affected by storage curtailment, but it is broadly acceptable to shippers who developed modification 52 and no less arbitrary than the price of emergency curtailment under modification 44.” SSE believed the “valuation of gas remaining in store will be affected by the time of year the shipper regains control over its gas in store. The gas will be worth more in the winter than the summer. This consequently has an impact on the level of compensation. The cost of compensation is borne by all shippers and is untargeted. This is unfair and may impact on shippers incentive to balance.” SSE also stated that Alternative Proposal was more cost effective than Proposal 0071 “because valuations of gas in store would reflect wholesale prices at the time shippers become able to withdrawal gas from store.”

No implications of implementation on industry fragmentation were identified.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

The proposer of **Modification Proposal 0071** suggested that implementation would “restore National Grid NTS’s role of residual balancer back to the more efficient level that existed prior to the implementation of UNC Modification Proposal 0052.” NGNTS in its response applied this statement to Alternative Proposal 0071a as well.

EDFE suggested, however, in opposition to the compensation price proposed, that “Shippers need to be incentivised to keep gas in store to avoid instigating a monitor breach and thus an emergency. In this respect it is likely that NGG will have to perform more residual balancing to resolve the issue of Users prematurely withdrawing their gas from store to avoid getting cashed out at less than market prices, contrary to the proposer’s view that this modification will reduce its balancing role.” EDFE also referred to the fact that “significant volumes of gas are being re-injected at present in the middle of winter,” and that “having this price as the basis for calculating storage curtailment compensation might change shippers injection behaviour if they believe an emergency is likely.”

EDFT suggested that as a consequence of implementing Proposal 0071, the “System Operator is likely to have to take increased balancing actions immediately prior to an emergency occurring to counteract the perverse effects this Modification Proposal would have on storage Users withdrawal activities.”

RWE suggested that Proposal 0071 “seeks to address some of the perceived weaknesses of 0052 by replacing the SWCQ trade mechanism with a compensation payment in order to preserve incentives on affected shippers to balance.” However it was not clear “that the basis of the payment adequately compensates for the opportunity costs of not using storage and having to source alternative supplies.” RWE suggested that “changing the SWCQ mechanism may reintroduce the incentive on Users to withdraw gas from storage ahead of a potential NGSE.”

SGN commented that the *“justification for compensation proposals assumes that by offering compensation reflective of market conditions at the time, the User would be unlikely to take any further balancing actions. We do not believe this has been adequately thought through or demonstrated to be the case. Under such conditions the market is likely to be tight and prices are likely to be high. If the NEC becomes involved, Users will be fully aware of the potential next steps. We would expect most if not all Users to be responding and taking all steps possible to avoid further customer interruption or firm load shedding. If they have demand side response to offer, we would expect them to do so.”*

The proposer of **Alternative Modification Proposal 0071a** suggested that implementation of the alternative would avoid "inappropriate ‘smearing’ of compensation costs across all shippers where this is not justified, Inappropriate targeting of such costs may ultimately affect how shippers act in the market. This may indirectly impact shipper incentives to balance." This would in turn affect the operation of the System.

STUK, in respect of both Proposals, believed that given the *“number of changes to the emergency processes already introduced this winter and the confusion that still exists around the implementation of 0044...that any further changes at this time will add further complexity and limit the industries ability to respond to an emergency.”*

b) development and capital cost and operating cost implications:

The proposer of **Modification Proposal 0071** suggested that this "Proposal seeks to reduce the role of the residual balancer to the extent that this role has been increased through the implementation of Modification Proposal 0052 and will therefore save the costs associated with the additional trades and processes anticipated as a result of UNC 0052." NGNTS in its response applied this statement to Alternative Proposal 0071a as well. However in respect of Alternative Proposal 0071, NGNTS stated that Proposal 0071a would *“involve additional operating costs as a result of the two-stage compensation process.”*

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

NGNTS pointed out that any additional balancing costs arising from implementation of either Proposal would be met under the existing provisions.

d) analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences have been identified.

5. 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

No material consequences have been identified.

6. 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

The proposer of **Modification Proposal 0071** suggested that minor "changes to systems or manual workarounds may be required."

NGNTS in its response also applied this statement to Alternative Proposal 0071a.

No other respondent identified any system development implications.

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

In respect of **both Proposals**, CSL was *“concerned that storage users may face a credit ‘crunch’ in the event of an emergency through receiving compensatory cash payments against uncertain time-frames (instead of reducing imbalance exposure) whilst having to continue to source gas that was intended to come out of store and the credit requirement this exposes these users to.”*

EDFE in reference to these proposals and the *“recent spate of Urgent modifications”* referred to the consequent difficulty *“for gas Shippers and Suppliers to run our businesses efficiently and mitigate our risks. We, like most other users of Storage gas have bought our gas requirements in advance of winter based on a risk position which we can manage and to have rapid and extensive regulatory changes with short-timescales is increasing our risks this winter. Two business days to understand and respond to what are 2 intricate modifications is clearly not sufficient. We recognise that Ofgem does not raise modifications but we hope that Ofgem take this into when deciding on which modifications to implement this winter and which ones should be left to discuss in more sensible timescales for next winter.”*

The proposer of **Modification Proposal 0071** suggested that as a consequence of implementation "Users affected by a curtailment of Storage Withdrawal will receive an appropriate compensation payment and be incentivised to restore any imbalance positions. Additional operational costs associated with submitting claims, etc are believed to be lower than those associated with the current, post UNC 0052, regime.

Users unaffected by the curtailment of Storage Withdrawal will benefit as a result of a likely reduction in the buying activity of the residual balancer that would have otherwise been funded through neutrality."

EDFT, in respect of Proposal 0071, believed that implementation would lead to discrimination against Storage Users. It believed that it *“may lead to an increased risk of User default and potentially increase credit related costs across the industry as individual imbalances are not correctly adjusted. We wish to reiterate, however, that the lack of commercial of incentives placed on NG NTS needs to be addressed as soon as possible as this will continue to exacerbate overall costs to the industry.”*

E.ON after referring to recent high gas prices and *“that several shippers going out of business, in part because of their inability to cover their imbalance exposure”* suggested that implementation of Proposal 0071 *“could in future very easily contribute to further business failures that might otherwise be avoided.”* E.ON added that provisional *“‘up-front’ (SMPbuy - 30 day SAP) payments under alternative 0071A helps ensures adequate cash-flows can be maintained to help avoid extreme imbalance exposure as a result of storage curtailment.”*

The proposer of **Alternative Modification Proposal 0071a** suggested that unlike Proposal 0071 "this alternative seeks to provide **full and fair** compensation to shippers that find themselves less able to balance their positions in an emergency. " The proposer pointed out that to "help avoid the possibility of business failures due to cash-flow/credit cover problems resulting form excessive imbalance exposures that might otherwise not immediately be offset by storage curtailment compensation payments, we

propose that the initial 'up-front' (SMPbuy – 30 day SAP) compensation payment introduced under Modification 0052 would be retained." The proposer clarified that this would be subject to the direct compensation payment set out in Proposal 0071 "rather than the Modification 0052 imbalance adjustment process."

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

The proposer of **Alternative Modification Proposal 0071a** suggested that if the compensation payment element of Modification Proposal 0052 were not retained, shippers would be "encouraged to use other forms of perhaps less economic flexibility in preference to storage because they are not appropriately compensated for helping the system when the Emergency Procedures require shippers to keep gas in store. Ultimately this may help damage the prospect for further investment in storage capacity which the GB so desperately needs to support long-term security of supply." Other similar comments are summarised in the Section 3 of this report.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

In its response, NGNTS suggested that implementation of either Proposal would "*ensure that the incentive on such Users to balance within the Day is maintained thus helping to ensure that the market activity of the residual balancer is restored to an efficient level.*"

The proposer of **Modification Proposal 0071** suggested the following **advantages** of implementation:

"The Proposal will provide appropriate compensation to Users affected by storage curtailment activity requested by the NEC.

The Proposal ensures that Users affected by a storage curtailment cannot successfully make multiple compensation claims for the same unit of gas."

The proposer of **Alternative Modification Proposal 0071a** suggested the following **advantages** of implementation:

It "seeks to provide **full and fair** compensation to shippers that find themselves less able to balance their positions in an emergency."

By retaining the 'up front' (SMPbuy - 30 Day SAP) compensation payment, it would help "avoid the possibility of business failures due to cash-flow/credit cover problems resulting from excessive imbalance exposures that might otherwise not immediately be offset by storage curtailment compensation payments."

NGNTS suggested as a **disadvantage** of implementation, that neither Proposal would "*prevent a User from obtaining an additional benefit from the gas it holds in Storage, by withdrawing it on a day after the curtailment period, when the market value of the gas may be higher than the potential value that was compensated for.*"

In respect of Alternative Modification Proposal 0071a NGNTS considered that *“this Proposal over compensates Users affected by storage curtailment”* and that it was *“unclear in its intent regarding compensation for gas obtained after the start of the first curtailment period via a storage transfer. There is nothing preventing Users successfully claiming compensation for this gas, which may already have been subject to a successful claim by a previous owner.”*

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following:

Organisation	Abbr	0071	0071a
British Gas Trading Ltd	BGT	Not in Support	Not in Support
Centrica Storage Ltd	CSL	Not in Support	Not in Support
E.ON UK	E.ON	Not in Support	In Support
EDF Energy	EDFE	Not in Support	Qualified Support
EDF Trading Limited	EDFT	Not in Support	
National Grid Gas plc (NTS)	NGNTS	In Support	Not in Support
National Grid Gas plc (UK Distribution)	NGUKD	In Support	Not in Support
RWE npower	RWE	Not in Support	Not in Support
Scotia Gas Networks	SGN	Not in Support	In Support
Scottish and Southern Energy plc	SSE	Not in Support	In Support
SSE Hornsea Ltd	SSEHL	Not in Support	
Statoil (UK) Ltd	STUK	Not in Support	Not in Support

In respect of Modification Proposal 0071, two responses were in support of implementation and eleven did not support implementation.

In respect of Alternative Modification Proposal 0071a, four were in support of implementation (including one with qualified support) and seven were not in support of implementation.

In addition to specific comment under the subject headings within this report, the following aspects were addressed.

1. Appropriateness of the Compensation Arrangements

2. In respect of both Proposals, TGP reiterated its support for the *“approach within modification 52, i.e. to leave shippers financially ‘neutral’ via an SWCQ adjustment. We*

continue to believe the form and structure of compensation provided for under mod 52 remains broadly appropriate for this winter and would prefer refinements to be developed in the context of a post-winter review.”

BGT suggested that implementation of Modification Proposal 0071 “*would re-introduce much of the difficulty that pertained prior to proposal 0052. The proposal would apply a valuation of the gas based upon SAP less average summer price plus a proxy cost of storage booking and injection/withdrawal. This would grossly undervalue the energy which would have been available to the User had a curtailment not been applied. We share the view, expressed widely by attendees of the recent workstream, that this value must include the marginal price of the day if it is properly to reflect the exposure that the User is subject to should the gas not be available to address their balance position.*”

EDFE suggested the calculation used in Modification Proposal 0071 was “*fundamentally flawed as it uses an average summer price as the minimum value of that gas in store. This assumption is clearly incorrect in many cases as Users could have injected gas outside the summer months, as normal at facilities with fast cycling rates or on the highest priced days in the summer period April to September. In fact significant volumes of gas are being re-injected at present in the middle of winter.*” Also in respect of protection against market prices EDFE stated that it “*only offers to pay compensation at SAP whereas Shippers use stored gas as a means of protecting against highest priced days and therefore SMP Buy price.*”

EDFT suggested that Proposal 0071 “*does not provide the storage user with a market value for the curtailed gas held in store. The use of a SAP differential is of little relevance as the purpose of holding gas in store is to protect against imbalances during periods of high cash-out prices, noting that cash-out is determined by reference to the SMP prices.*” In support of this argument EDFT pointed out that “*SAP is an indicative price which by its very nature reflects trades performed over the duration of the gas day. The real value of the gas at the time of the enforced curtailment is the prevailing trading price, or the SMPbuy price. EDFT believes that the application of SAP discriminates against storage Users and only a SMP based scheme will align the commercial incentives on all users accessing flexible gas supplies from whichever source they wish to contract.*”

E.ON referred to the “*undue haste*” with which Proposal 0071 had been raised and suggested that if implemented Storage Uses would more often than not be systematically under compensated. E.ON suggested that this was “*because the compensation value proposed by NG NTS does not consider the likely imbalance exposure (i.e. System Marginal Buy Price) faced by shippers who are subject to storage withdrawal curtailment.*” E.ON referred to and summarised the table it had included within its Alternative Proposal 0071a which, it believed, demonstrated the principle that full and fair compensation would be paid to Shippers if the Alternative Proposal were implemented.

NGUKD recognised that “*without some form of intervention a shipper that suffers a loss off storage supplies will be exposed to additional cost. However, we are of the view that it appropriate not to fully, or over-compensate, the shipper to ensure the incentive for shipper to physically balance supply and demand is maintained.*” NGUKD therefore suggested that a “*fair balance would seem to be that the curtailment of storage (in the same way as any other loss of supply) should not absolve the shipper of*

its responsibility to physically balance and any arrangements in force during an emergency should not remove the effects of the market from shipper's decision making." NGUKD concluded that on balance it supported Proposal 0071 as *"the intermediate solution that leaves a shipper exposed to the market but protected by compensation from its worst effects (as reward for taking prudent actions before the winter) so as to encourage a shipper to source supplies or instigate its own demand-side action. To do otherwise, and allow complete insulation from the market, would raise questions over the whole appropriateness of the current methods of dealing emergencies."*

RWE pointed out that introducing a *"mechanism that attempts to reflect both the value of gas curtailed on the day and the future or past value of such gas is an over-complication and one that will never produce the 'right' value. Short-range storage facilities (such as LNG) have considerably different injection and withdrawal characteristics to medium and long-range facilities and adopting a one size fits all approach to compensation will undoubtedly lead to discrimination in favour or against holders of storage capacity in the individual facilities. We would prefer that the more simplistic mechanism in 0052 be retained, alongside the appeal mechanism that is already within the modification. This will leave the storage users' imbalance position neutral to the effect of storage curtailment in an equivalent manner to how the ECQ trade (introduced by modification proposal 0044) leaves shippers imbalance neutral to the effect of emergency interruption and firm load shedding."*

In respect of Proposal 0071, SGN expressed concern that *"aspects of the proposal dealing with compensation payment would not better facilitate the relevant objectives. We are concerned that they would not adequately compensate parties whose gas is curtailed in storage, and who might otherwise have been balanced. Whilst we understand the aim is to ensure Users retain "an appropriate incentive to balance on the Day" and offer any other balancing actions to the market, we are concerned that this is a separate issues. The primary concern should first be to ensure that they are appropriately compensated for the gas that they have had curtailed, and the benefit they are providing for the wider market. We would expect compensation to be reflective of market conditions, risk and costs at the time."*

In respect of Proposal 0071 SSE believed the proposed compensation mechanism *"would in most cases under compensate storage users. SSE also think that this proposal is less cost effective than mod 71A because valuations of gas in store should reflect wholesale prices at the time shippers become able to withdrawal gas from store. Basing the value on the value of summer gas does not reflect this."* SSE suggested that the proposed *"SAP price compensation does not adequately reflect the value of gas on peak days when storage curtailment may be called. The SMP_{buy} price compensation may not be precisely correct as compensation for shippers adversely affected by storage curtailment, but it is more appropriate than SAP and no less arbitrary than the price of emergency curtailment under modification 44."*

In respect of Alternative Proposal 0071a, EDFE believed it to be *"an improvement upon modification 071 as it does not distort the incentives for keeping in gas in store and effectively retains a similar amount of compensation proposed in their original modification 052 which Ofgem recently implemented."*

SGN believed Alternative Proposal 0071a was preferable to Proposal 0071, *"offering a more reasonable level of compensation and avoiding any potential perverse incentives which could in our view occur under 0071. We believe such perverse incentives could*

be detrimental to security of supply, competition and the economic and efficient operation of the network.”

Insufficient Opportunity for Development of Proposal

In respect of Alternative Proposal 0071a, BGT suggested that whilst it believed that there was *“merit in the design and application of an adjustment mechanism after the event,”* it did not *“believe that the wider community has had sufficient time and opportunity to fully consider the manner in which this would be applied.”*

STUK appreciated that Modification Proposals 0071 and Alternative Proposal 0071a *“both contain areas of merit, but feel that they require further development as suggested in the introductory paragraph of proposal 0071a.”* STUK also believed that *“the implementation of mod 0052, provides a reasonable level of compensation required to alleviate the cashout regime introduced by the implementation of mod 0044, for this winter and believe that the status quo should remain until a complete review can take place in the spring.”*

TGP expressed disappointment that *“further urgent modifications continue to be raised in this area so late into the winter. We consider this provides the industry with insufficient time to fully evaluate the implications of either modification proposal and risks further unintended consequences and the need for further corrective urgent modifications.”*

Incentives to Inject during Winter

CSL was specifically concerned that incentives on storage users to cycle gas into store would be weakened *“either through the uncertainty created by these modifications; any unintended consequences that cannot be recognised in such a short consultation period or more fundamentally through the actual compensation arrangements they create.”*

Multiple Curtailment Periods

EDFE suggested that Alternative Proposal was an *“improvement upon modification 071 as it does not distort the incentives for keeping in gas in store and effectively retains a similar amount of compensation proposed in their original modification 052 which Ofgem recently implemented.”*

RWE commented that a *“feature of 0071 that we do support is the proposed treatment of multiple curtailment periods. It seems correct to us that Users should not receive multiple payments for the same gas and that the calculation of entitlement should reflect previous claims and net additional injections and withdrawals.”*

In relation to Modification Proposal 0071, SGN welcomed *“the clarification that this proposal brings in relation to the curtailment quantity. We believe 0071 would ensure that the affected party would only receive compensation up to the amount held in storage at the time the emergency was called and couldn’t benefit inappropriately by receiving compensation for the same volume of gas on more than one occasion. We believe this aspect of the proposal would better facilitate the relevant objectives.”*

SSHEL pointed out that, in Proposal 0071, *“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.”

Administrative Complexity

NGNTS expressed the view that Proposal 0071 had the “*undoubted advantage of being simpler than that required for 0071a. By settling the compensation issue within one business day of the curtailment 0071 allows Users to retain certainty over their anticipated costs and revenues. Modification Proposal 0071a on the other hand would take at least a month before affected Users would have certainty about how much they are going to receive in compensation for the curtailment, and potentially longer where separate curtailment periods are not separated by a period of 30 days or more continuous non-emergency operation. This uncertainty may drive inappropriate behaviours in some Users and uncertain indebtedness positions. It is worth noting that since the compensation payments are to be paid from Balancing Neutrality, all Users will be affected by this uncertainty.*” NGNTS also expressed the view that the “*two stage approach proposed in 0071a is inherently less efficient than the single stage approach proposed in 0071 as it will require addition administration process and billing arrangements including new charge items which may result in a delay to its implementation.*”

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirements have been identified.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirements have been identified.

14. Programme for works required as a consequence of implementing the Modification Proposal

No programme for work has been identified.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Nothing has been identified that would prevent immediate implementation following approval.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel Meeting held on 21 December 2005, of the 7 Voting Members present, capable of casting 9 votes:

2 votes were cast in favour of implementing Modification Proposal 0071. Therefore the Panel did not recommend implementation of this Proposal.

No votes were cast in favour of implementing Alternative Modification Proposal 0071a. Therefore the Panel did not recommend implementation of this Alternative Proposal.

18. Transporter's Proposal

This revised Modification Report contains the Transporter's proposal not to modify the Code but has been prepared following direction from the Gas & Electricity Markets Authority.

19. Text

UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

SECTION F - SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

UNC – TPD Section F

Amend paragraph 4.4.2 to read as follows:

“4.4.2 “**Aggregate System Receipts**” for a Day.....:

- (a)
- (b)
- (c)
- (d)that Day;
- (e)that Day;
- (f); and
- (g) the amounts received by National Grid NTS from Users pursuant to Section Q7.2 ~~or Section Q7.3 in respect of Users’ Storage Withdrawal Curtailment Quantity~~ relating to that Day ~~or any revisions thereto.~~”

Amend paragraph 4.4.3 to read as follows:

“4.4.3 “**Aggregate System Payments**” for a Day.....:

- (a)
- (b)that Day;
- (c); and
- (d) the amounts payable by National Grid NTS to Users pursuant to Section Q7.2 ~~or Section Q7.3 in respect of Users’ Storage Withdrawal Curtailment Quantity~~ relating to that Day ~~or any revisions thereto.~~”

UNC – TPD Section Q

Amend paragraph 4.2.2 to read as follows:

“4.2.2 In respect of each Day during a network gas Supply Emergency Gas Deficit Emergency:

- (a) National Grid NTS shall pay to each User who delivered on a Day more gas to the Total System than it offtook on such Day an amount determined as the User's Daily Imbalance multiplied by the relevant price, subject to paragraph 4.2.5;

- (b) each User who offtook on a Day more gas from the Total System than it delivered on such Day shall pay to National Grid NTS an amount determined as the User's Daily Imbalance multiplied by the relevant price.

For the purposes of this paragraph 4.2.2, and pursuant to the provisions of paragraphs 6.2.1, and 7.2.1, a User's Daily Imbalance shall include that User's Emergency Curtailment Quantity ~~and Storage Withdrawal Curtailment Quantity.~~"

Amend paragraph 7 to read as follows:

7. STORAGE WITHDRAWAL CURTAILMENT

7.1 Definitions

7.1.1 For the purposes of the Code:

- (a) "~~Storage Withdrawal Curtailment~~**Storage Curtailment**" means the reduction or cessation of delivery of gas to the Total System from a Storage Facility at the relevant Storage Connection Point by the Storage Operator following a request to do so by the NEC (~~through National Grid NTS~~either directly or indirectly);
- (b) "~~Storage Withdrawal Curtailment Trade Price~~**Storage Curtailment Compensation Price**" means the value (in pence/kWh) ~~of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2 but by reference to the 30 Days preceding the Day on which the Storage Withdrawal Curtailment occurred~~ determined as:

SMPBuy – 30 Day SAP;

Where:

SMPBuy is the System Marginal Buy Price for the Day in question; and

30 Day SAP is the value (in pence/kWh) of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2 but by reference to the 30 Days preceding the Day on which the Storage Withdrawal Curtailment occurred.

- (c) "~~Storage Withdrawal Curtailment Quantity~~**Estimated Aggregate Storage Curtailment Compensation Quantity**" means, in respect of a User, the sum of the Estimated Individual Storage Curtailment Compensation Quantities for that User in respect of a Day;
- (d) "~~Actual Aggregate Storage Curtailment Compensation Quantity~~" means, in respect of a User, the sum of the Actual Individual Storage Curtailment Compensation Quantities for that User in respect of a Day;
- (e) "~~Estimated Individual Storage Curtailment Compensation Quantity~~" means (subject to paragraph (g)), in respect of a User, the quantity of gas calculated by that User as being the sum of the aggregate quantities of gas (in kWh) that the User reasonably estimates it would have been allocated as

having delivered (in accordance with the relevant Storage Terms) on a Day to the Total System at a Storage Connection Points in respect of which Storage Withdrawal Curtailment has occurred but for the fact that Storage Withdrawal Curtailment had occurred at ~~those~~ that Storage Connection Points, less ~~the quantities of gas (if any) actually delivered by the User on that Day to the Total System at the Storage Connection Points in question or the quantities of gas (if any) that the User estimates will actually be allocated as having delivered by the User on that Day to the Total System at the Storage Connection Points in question;~~ provided that a User's Storage Withdrawal Curtailment Quantity in respect of each Storage Facility for any Day may not exceed a quantity equal to the lesser of

(f) "Actual Individual Storage Curtailment Compensation Quantity" means (subject to paragraph (g)), in respect of a User, the quantity of gas (in kWh) that the User reasonably estimates it would have been allocated as having delivered (in accordance with the relevant Storage Terms) on a Day to the Total System at a Storage Connection Point in respect of which Storage Curtailment has occurred but for the fact that Storage Curtailment had occurred at that Storage Connection Point, less the User's UDQI on that Day at the Storage Connection Point in question;

(g) a User's Estimated Individual Storage Curtailment Compensation Quantity or Actual Individual Storage Curtailment Compensation Quantity in respect of a Storage Facility for any Day may not exceed a quantity equal to the lesser of:

- (i) the User's Available Curtailment Quantity on that Day; and
- (ii) the maximum available deliverability of the Storage Facility for that Day as provided to National Grid NTS by the Storage Operator for the relevant Storage Facility under the relevant Storage Connection Agreement;

(h) a User's "Available Curtailment Quantity" on a Day in relation to each Storage Facility is a quantity equal to the sum of:

- (i) the User's gas-in-storage in that Storage Facility at the start of the First Curtailment Day~~immediately prior to the commencement of the Storage Withdrawal Curtailment in question;~~ less
- (ii) the sum of the User's Actual Individual Storage Withdrawal Compensation Curtailment Quantities in respect of that Storage Facility for each Day since the First Curtailment Day~~commencement of the Storage Withdrawal Curtailment in question;~~ less~~plus~~
- (iii) the sum of the User's UDQOs in respect of the Storage Connection Point relating to that Storage Facility for each Day since the First Curtailment Day~~commencement of the Storage Withdrawal Curtailment in question;~~ plus~~less~~

- (iv) the sum of the User's UDQIs in respect of the Storage Connection Point relating to that Storage Facility for each Day since the First Curtailment Day; ~~commencement of the Storage Withdrawal Curtailment in question.~~

~~For the avoidance of doubt, on the Day of the commencement of the Storage Withdrawal Curtailment in question, the User's Available Curtailment Quantity shall be a quantity equal to the User's gas in storage in that Storage Facility immediately prior to the commencement of the Storage Withdrawal Curtailment in question.~~ (i) the "**First Curtailment Day**" is the first Day in the Gas Year on which Storage Curtailment occurred at the Storage Facility in question.

~~7.2 Storage Withdrawal Curtailment~~ Storage Curtailment Compensation Trade Arrangements

- 7.2.1 ~~On each Day that Storage Withdrawal Curtailment~~ Storage Curtailment occurs, then each User that has a ~~Storage Withdrawal Curtailment Quantity~~ will make an ~~Acquiring Trade Nomination~~, and National Grid NTS will make a corresponding ~~Disposing Trade Nomination~~, in each case for the User's ~~Storage Withdrawal Curtailment Quantity~~. The User shall make its ~~Acquiring Trade Nomination~~ not later than 23:00 hours on the Day to which it relates, and any such ~~Acquiring Trade Nomination~~ may be withdrawn at any time prior to National Grid NTS submitting the corresponding ~~Disposing Trade Nomination~~ but not otherwise. ~~will submit to National Grid NTS by 0400 hours on the Day that Storage Curtailment occurs a CQ_{SCP} Statement detailing the User's Estimated Individual Storage Curtailment Compensation Quantity in respect of each Storage Connection Point at which Storage Curtailment occurred and a SCCQ Statement detailing the User's Estimated Aggregate Storage Curtailment Compensation Quantity. Not later than 1700 hours on the first Business Day following the Day that Storage Curtailment occurs, National Grid NTS will advise each User that submits a SCCQ Statement as set out in paragraph 7.2.1 of the amount payable by National Grid NTS pursuant to paragraph 7.2.2.~~
- 7.2.2 ~~Each User will pay to National Grid NTS~~ will pay each User that submits a SCCQ Statement as set out in paragraph 7.2.1 an amount determined as the User's Storage Withdrawal Curtailment Quantity ~~Estimated Aggregate Storage Curtailment Compensation Quantity~~ multiplied by the ~~Storage Withdrawal Curtailment Trade Price~~ Storage Curtailment Compensation Price.
- 7.2.3 ~~As soon as reasonably practicable after the end of the Day (and in event, not later than the Entry Close Out Date in respect of the Day), the User shall submit to National Grid NTS a revised CQ_{SCP} Statement detailing the Actual Individual Storage Curtailment Compensation Quantity in respect of each Storage Connection Point at which Storage Curtailment occurred and a revised SCCQ Statement detailing the User's Actual Aggregate Storage Curtailment Compensation Quantity.~~
- 7.2.4 ~~In the event that a User's Actual Aggregate Storage Curtailment Compensation Quantity estimate of its Storage Withdrawal Curtailment Quantity is changed in respect of a Day, or Storage Withdrawal Curtailment that had previously occurred in respect of that Day is removed~~ differs from the User's Estimated Aggregate Storage

~~Curtailment Compensation Quantity in respect of such Day, then such User shall calculate a revised Storage Withdrawal Curtailment Quantity, and:~~

- ~~(a) where the effect is such that a User's Actual Aggregate Storage Curtailment Compensation Quantity revised Storage Withdrawal Curtailment Quantity is greater than the User's previously calculated Storage Withdrawal Curtailment Quantity Estimated Aggregate Storage Curtailment Compensation Quantity, then National Grid NTS will pay to the User an amount determined as the difference between the User's Actual Aggregate Storage Curtailment Compensation Quantity and the User's Estimated Aggregate Storage Curtailment Compensation Quantity, multiplied by the Storage Curtailment Compensation Price the User will make an Acquiring Trade Nomination, and National Grid NTS will make a corresponding Disposing Trade Nomination, in each case for the difference between the User's revised Storage Withdrawal Curtailment Quantity and the User's previously calculated Storage Withdrawal Curtailment Quantity; and~~
- ~~(b) where the effect is such that a User's revised Storage Withdrawal Curtailment Quantity Actual Aggregate Storage Curtailment Compensation Quantity is less than the User's previously calculated Storage Withdrawal Curtailment Quantity Estimated Aggregate Storage Curtailment Compensation Quantity, then the User will pay to National Grid NTS an amount determined as the difference between the User's Estimated Aggregate Storage Curtailment Compensation Quantity and the User's Actual Aggregate Storage Curtailment Compensation Quantity, multiplied by the Storage Curtailment Compensation Price each User that has a Storage Withdrawal Curtailment Quantity will make a Disposing Trade Nomination, and National Grid NTS will make a corresponding Acquiring Trade Nomination, in each case for the difference between the User's previously calculated Storage Withdrawal Curtailment Quantity and the User's revised Storage Withdrawal Curtailment Quantity.~~

~~7.2.4 In the circumstances set out in:~~

- ~~(a) paragraph 7.2.3(a), the User will pay to National Grid NTS an amount determined as the difference between the User's previously calculated Storage Withdrawal Curtailment Quantity and the User's revised Storage Withdrawal Curtailment Quantity multiplied by the Storage Withdrawal Curtailment Trade Price;~~
- ~~(b) paragraph 7.2.3(b), National Grid NTS will pay to the User an amount determined as the difference between the User's revised Storage Withdrawal Curtailment Quantity and the User's previously calculated Storage Withdrawal Curtailment Quantity multiplied by the Storage Withdrawal Curtailment Trade Price.~~

~~7.2.5 National Grid NTS shall use reasonable endeavours to submit the corresponding Disposing Trade Nomination or Acquiring Trade Nomination (as the case may be) pursuant to paragraph 7.2.1 or 7.2.3, or inform the User of its intention to refuse to submit the corresponding Disposing Trade Nomination or Acquiring Trade Nomination (as the case may be) pursuant to paragraph 7.2.1 or 7.2.3, within one (1) hour of the User notifying its Acquiring Trade Nomination or Disposing Trade~~

~~Nomination to National Grid NTS. National Grid NTS shall be entitled to refuse to submit the corresponding Disposing Trade Nomination or Acquiring Trade Nomination (as the case may be) pursuant to paragraph 7.2.1 or 7.2.3 if the resulting Storage Withdrawal Curtailment Quantity exceeds a quantity equal to the lesser of:~~

- ~~(a) the User's Available Curtailment Quantity in respect of the relevant Storage Facility; and~~
- ~~(b) the maximum available deliverability of the relevant Storage Facility for that Day as provided to National Grid NTS by the Storage Operator for the relevant Storage Facility under the relevant Storage Connection Agreement.~~

~~7.2.6 National Grid NTS will not pay Balancing Charges, Balancing Neutrality Charges, Scheduling Charges or Daily Imbalance Charges as a result of Trade Nominations occurring as a result of the operation of paragraphs 7.2.1 or 7.2.3.~~

~~7.2.57~~ For the avoidance of doubt, any amounts payable by National Grid NTS pursuant to paragraph 7.2.2, ~~or 7.2.4 or 7.2.6~~ shall not be included in the calculation of the System Marginal Buy Price, the System Marginal Sell Price or the System Average Price pursuant to Section F1.2 for the Day to which ~~the Storage Withdrawal Curtailment Quantity~~ such amounts relates.

~~7.2.8 As soon as reasonably practicable after the removal of the Storage Withdrawal Curtailment (and in event, not later than the Entry Close Out Date in respect of the Day on which the Storage Withdrawal Curtailment was removed), the User shall (on the basis of its confirmed UDQIs in respect of a Storage Facility) advise National Grid NTS (by submitting a CQ_{SCP} Statement and a SWCQ Summary Statement) of any revisions required to the User's Storage Withdrawal Quantity in relation to the relevant Storage Facility for the Days in question. The provisions of paragraph 7.3 shall apply to any such revisions.~~

~~7.2.69~~ For the purposes of Code:

- (a) a **"CQ_{SCP} Statement"** is a statement prepared by a User in relation to each Storage Connection Point in respect of which it is a User and at which ~~Storage Withdrawal Curtailment~~ Storage Curtailment occurred on the Days in question specifying:
 - (i) the identity of the User to which the statement relates;
 - (ii) the Storage Connection Point to which the statement relates;
 - (iii) the name of the Storage Operator;
 - ~~(iv)~~ (iv) the ~~User Allocation Agent~~ name of the allocation agent in respect of the Storage Connection Point if different from the Storage Operator;
 - ~~(iv)~~ (iv) the User's gas-in-storage in the Storage Facility at the start of the First Curtailment Day ~~on which the Storage Withdrawal Curtailment commenced~~;

- (vi) the User's prevailing Input Nomination at the time the ~~Storage Withdrawal Curtailment~~Storage Curtailment commenced;
 - (vii) the User's ~~end-of-Day Input Nominations~~Actual Individual Storage Curtailment Compensation Quantities for the Storage Facility in question (or, where these are not available, the Estimated Individual Storage Curtailment Compensation Quantities or the Storage Facility in question) for all Days since the ~~First Curtailment Day~~Storage Withdrawal Curtailment commenced;
 - (viii) the User's ~~actual~~ UDQIs at the Storage Connection Point for each Day since the ~~Storage Withdrawal Curtailment~~ commencedFirst Curtailment Day;
 - ~~(viii)~~(ix) the User's UDQOs at the Storage Connection Point for each Day since ~~the First Curtailment Day~~the User's estimated gas in storage in the Storage Facility at the end of each Day during which the Storage Withdrawal Curtailment continued;
 - ~~(ix)~~ the User's estimated gas in storage in the Storage Facility at the end of each Day during which the Storage Withdrawal Curtailment continued less the User's cumulative estimated Storage Withdrawal Curtailment Quantity in respect of each Day during which the Storage Withdrawal Curtailment continued;
 - ~~(x)~~ the User's actual gas in storage in the Storage Facility at the end of each Day during which the Storage Withdrawal Curtailment continued;
 - ~~(xi)~~ the User's actual gas in storage in the Storage Facility at the end of each Day during which the Storage Withdrawal Curtailment continued less the User's cumulative revised Storage Withdrawal Curtailment Quantity in respect of each Day during which the Storage Withdrawal Curtailment continued;
 - ~~(ixii)~~ the User's ~~Estimated Storage Withdrawal Curtailment Quantity~~Individual Storage Curtailment Compensation Quantity or Actual Individual Storage Curtailment Compensation Quantity (as the case may be) for the Storage Facility in respect of each the Day during which the Storage Withdrawal Curtailment continued in question; and
 - ~~(xii)~~ the User's revised Storage Withdrawal Curtailment Quantity in respect of each Day during which the Storage Withdrawal Curtailment continued.
- (b) a "**SWCCQ Statement**" is a statement prepared by a User specifying:
- (i) the identity of the User to which the statement relates;
 - (ii) the User's ~~e~~Estimated Storage Withdrawal Curtailment QuantityIndividual Storage Curtailment Compensation Quantity or Actual Individual Storage Curtailment Compensation Quantity (as the case may be) for each Storage Connection Point in respect of ~~each the~~

~~Day in question during which the Storage Withdrawal Curtailment continued; and~~

- ~~(iii) User's Estimated Aggregate Storage Curtailment Compensation Quantity or Actual Aggregate Storage Curtailment Compensation Quantity (as the case may be) in respect of the Day in question, the User's revised Storage Withdrawal Curtailment Quantity for each Storage Connection Point in respect of each Day during which the Storage Withdrawal Curtailment continued;~~
- ~~(iv) — the total of the amounts specified pursuant to paragraph (ii); and~~
- ~~(v) — the total of the amounts specified pursuant to paragraph (iii).~~

~~7.3 — Storage Withdrawal Curtailment Adjustment~~

~~7.3.1 — Where the provisions of this paragraph 7.3 apply, then:~~

- ~~(a) — where the User's Storage Withdrawal Curtailment Adjustment Quantity is positive, the User will pay National Grid NTS an amount equal to the User's Storage Withdrawal Curtailment Adjustment Clearing Charge; and~~
- ~~(b) — where the User's Storage Withdrawal Curtailment Adjustment Quantity is negative, National Grid NTS will pay the User an amount equal to the User's Storage Withdrawal Curtailment Adjustment Clearing Charge.~~

~~7.3.2 — For the purposes of this paragraph 7.3:~~

- ~~(a) — in respect of each Day, a User's "Storage Withdrawal Curtailment Adjustment Quantity" is the amount by which the User's Storage Withdrawal Curtailment Quantity advised by the User pursuant to paragraph 7.2.8 in respect of Day differs from the User's Storage Withdrawal Curtailment Quantity estimated by the User in accordance with paragraph 7.1.1(c) in respect of such Day;~~
- ~~(b) — "Storage Withdrawal Curtailment Adjustment Clearing Charge" is an amount equal to the User's Storage Withdrawal Curtailment Adjustment Quantity multiplied by the Storage Withdrawal Curtailment Trade Price; and~~

~~7.3.3 — A User's Storage Withdrawal Curtailment Adjustment Quantity is positive where the User's Storage Withdrawal Curtailment Quantity advised by the User pursuant to paragraph 7.2.8 in respect of a Day is greater than the User's Storage Withdrawal Curtailment Quantity estimated by the User in accordance with paragraph 7.1.1(c) in respect of such Day, and is negative where the User's Storage Withdrawal Curtailment Quantity estimated by the User in accordance with paragraph 7.1.1(c) in respect of a Day is greater than the User's Storage Withdrawal Curtailment Quantity advised by the User pursuant to paragraph 7.2.8 in respect of such Day.~~

~~7.3.4 — In addition to the amounts payable pursuant to paragraph 7.3.1:~~

- ~~(a) — where the User's Daily Imbalance is negative in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, and the Storage~~

~~Withdrawal Curtailment Adjustment Quantity is negative, then the User shall pay National Grid NTS an amount equal to the Storage Withdrawal Curtailment Adjustment Quantity multiplied by the relevant buy price applicable to such Day;~~

- ~~(b) — where the User's Daily Imbalance is negative in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, and the Storage Withdrawal Curtailment Adjustment Quantity is positive (but is less in magnitude than the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates), then National Grid NTS shall pay to the User an amount equal to the Storage Withdrawal Curtailment Adjustment Quantity multiplied by the relevant buy price applicable to such Day;~~
- ~~(c) — where the User's Daily Imbalance is negative in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, and the Storage Withdrawal Curtailment Adjustment Quantity is positive (and is greater in magnitude than the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates), then National Grid NTS shall pay the User:
 - ~~(i) — an amount equal to the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates multiplied by the relevant buy price applicable to such Day; plus~~
 - ~~(ii) — an amount equal to the sum of the Storage Withdrawal Curtailment Adjustment Quantity less the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, multiplied by the relevant sell price applicable to such Day;~~~~
- ~~(d) — where the User's Daily Imbalance is positive in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, and the Storage Withdrawal Curtailment Adjustment Quantity is positive, then National Grid NTS shall pay to the User an amount equal to the Storage Withdrawal Curtailment Adjustment Quantity multiplied by the relevant sell price applicable to such Day;~~
- ~~(e) — where the User's Daily Imbalance is positive in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, and the Storage Withdrawal Curtailment Adjustment Quantity is negative (but is less in magnitude than the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates), then the User shall pay National Grid NTS an amount equal to the Storage Withdrawal Curtailment Adjustment Quantity multiplied by the relevant sell price applicable to such Day;~~
- ~~(f) — where the User's Daily Imbalance is positive in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, and the Storage Withdrawal Curtailment Adjustment Quantity is negative (and is greater in magnitude than the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates), then the User shall pay National Grid NTS:~~

- ~~(i) an amount equal to the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates multiplied by the relevant sell price applicable to such Day; plus~~
- ~~(ii) an amount equal to the sum of the Storage Withdrawal Curtailment Adjustment Quantity less the User's Daily Imbalance in respect of the Day to which the Storage Withdrawal Curtailment Adjustment Quantity relates, multiplied by the relevant buy price applicable to such Day.~~

~~7.3.5 For the purposes of paragraph 7.3.4:~~

~~(a) the "relevant sell price" for any Day:~~

- ~~(i) in respect of which there is a Potential Network Gas Supply Gas Deficit Emergency (but no Network Gas Supply Gas Deficit Emergency), is the System Marginal Sell Price determined under Section F1.2.2(b); and~~
- ~~(ii) in respect of which there is a Network Gas Supply Gas Deficit Emergency, the relevant price as specified in paragraph 4.2.3(a);~~

~~(b) the "relevant buy price" for any Day:~~

- ~~(i) in respect of which there is a Potential Network Gas Supply Gas Deficit Emergency (but no Network Gas Supply Gas Deficit Emergency), is the System Marginal Buy Price determined under Section F1.2.2(a); and~~
- ~~(ii) in respect of which there is a Network Gas Supply Gas Deficit Emergency, the relevant price as specified in paragraph 4.2.3(b);"~~

7.2.7 In addition to the other amounts payable pursuant to this paragraph 7.2, following the determination of the User's Actual Aggregate Storage Curtailment Compensation Quantity and the first 30 consecutive Days following the Day in question on which there was not a Network Gas Supply Emergency (including a Potential Network Gas Supply Emergency), where:

- (a) the Storage Curtailment Reconciliation Price is positive, National Grid NTS will pay each User that submits a SCCQ Statement as set out in paragraph 7.2.1 an amount determined as the User's Actual Aggregate Storage Curtailment Compensation Quantity multiplied by the Storage Curtailment Reconciliation Price; and
- (b) the Storage Curtailment Reconciliation Price is negative, each User that submits a SCCQ Statement as set out in paragraph 7.2.1 will pay National Grid NTS an amount determined as the User's Actual Aggregate Storage Curtailment Compensation Quantity multiplied by the Storage Curtailment Reconciliation Price.

7.2.8 For the purposes of the Code, the "Storage Curtailment Reconciliation Price" is a price (in pence/kWh) determined as:

$$\underline{(30 \text{ Day SAP PE} - 0.0611\text{p}) - 30 \text{ Day SAP}}$$

Where:

- (a) 30 Day SAP PE is the value of the arithmetic mean of the determined under Section F1.2.1(c) but by reference to the first 30 consecutive Days following the Day in question on which there was not a Storage Withdrawal Curtailment; provided that where for any Day in such period no Market Transaction was effected (or none other than one excluded for the purposes of paragraph 1.2.1 pursuant to paragraph 1.2.3), such Day shall be excluded from the calculation of 30 Day SAP PE (which shall be calculated on the basis of the System Average Prices of the remaining Days in such period); and
- (b) 30 Day SAP is the value (in pence/kWh) of the arithmetic mean of the System Average Prices determined under Section F1.2.1 or F1.2.2 but by reference to the 30 Days preceding the Day on which the Storage Withdrawal Curtailment occurred.”