

Modification Report
Revision of the Rough Storage Connection Agreement
Modification Reference Number 0212
Version 2.0

This Modification Report is made pursuant to Rule 10.1 of the Modification Rules and follows the format required under Rule 10.2.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2, Ofgem agreed that this Modification Proposal should be treated as Urgent because, after considering CSL's justification for urgency, it noted its view that there is a likelihood of significant commercial impact upon Shippers and Customers if Rough storage users are unable to fully utilise additional capability to inject all available gas into Rough when market conditions dictate.

Whilst this proposal is not linked to a specific date, Ofgem was satisfied that there is an imminent date related event insofar as the summer season for the injection of gas into Rough is now underway.

To the extent that the injections into Rough are constrained artificially, ie by a cap within the Storage Connection Agreement rather than a physical constraint, it may inappropriately impinge upon Storage Users commercial decisions in that they are unable to maximise their injections while gas is relatively cheap. This could result either in the shortfall being made up later in the season when prices may not be as favourable, or potentially not at all with consequential impacts up gas availability and prices this winter. Ofgem therefore agreed that if the cap on injection rates is unnecessarily low, and the proposed changes to those arrangements are not treated as urgent, there could be a significant commercial impact upon Rough storage users. This could also have an impact on security of supply during the winter ahead

Procedures Followed:

The procedures agreed with Ofgem for this Proposal were:

Process	Date
Ofgem grant urgency status	02/05/08
Proposal issued for consultation	02/05/08
Close out of representations	09/05/08
FMR issued by Joint Office to Modification Panel	12/05/08
Modification Panel decide upon recommendation	15/05/08
Ofgem decision expected	ASAP following recommendation
Proposed implementation date	To be confirmed, if applicable

1 The Modification Proposal

Under Section J 4.3.7 of the UNC, a Code Modification is required to amend the Network Exit Provisions in place between the Transporter and the relevant consumer or Connected System Operator. It is proposed that the existing Rough Storage Connection Agreement (SCA) is amended to accommodate an increase in the injection offtake rate of the Rough storage facility from 21MCMD to 26MCMD. For the avoidance of doubt CSL are not requesting firm exit rights at the Rough exit meter. Rather we seek to increase the permitted exit flows through the interruptible meter point to match what can be

physically accommodated by both Rough storage and National Grid Gas, which in turn will be released to storage users.

The SCA increase is necessary to allow CSL to release the additional injection capability to storage users. This capacity has been created as a result of CSL's ongoing incremental investment programme - enhancing the capability of Rough storage was one of the key issues addressed in the Undertakings signed between Centrica Storage Ltd and the Secretary of State for Trade and Industry in 2003. Since the SCA was signed the Langedale entry point has connected at Easington, significantly increasing the exit capability at the Rough system exit point. National Grid have confirmed in correspondence with CSL that National Grid's network analysis indicates that this [increase to 26 mcm/d] will not impose any operational difficulties.

It had been our understanding that Modification Proposal 165V would have addressed this issue. This altered the current provisions in the UNC (section J 4.3.6) which allows the Permitted Ranges¹ within the Measurement Provisions section of the NEA or NExA to be increased with only the agreement of the Relevant Transporter and, in this case, the Storage Operator. However, on further investigation, it became apparent that a change in instantaneous flow rates is required as opposed to a change in the measurement range. The above provisions would not cover this requirement and a further UNC modification is required in order to enact an increase in injection rates. Urgent status is therefore requested to ensure this additional capability can be released to Rough storage users as soon as possible on a firm basis.

Rough's regulated contract for storage services (the Storage Services Contract or SSC) requires that the firm injection release to customers be set at midday the day before gas flow (D-1). If this modification is not approved then day ahead injection factors (and Users injection rates) will be limited to 21 mcm/d and users will only be able to access available increased rates on an interruptible basis within the day. This means that Users will be unable to secure day ahead gas for injection at the increased rate. As a result NGG will consistently be notified by users of an artificially reduced demand.

The consequence of non implementation is that the additional injection capability would not be made available to Rough customers as firm injection rates and would only be allocated on an interruptible basis on those occasions when CSL are allowed to flow above the existing SCA offtake maxima.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

As National Grid NTS would be able to make fuller use of its pipe-line system and prevent sterilisation of NTS exit capacity implementation would be

¹ For the purposes of this paragraph 4.3.6, "Permitted Ranges" means the minimum and/or maximum ranges (as specified in the Network Exit Provisions) for each part of the metering, sampling, analysis and other equipment required by the Network Exit Provisions to be installed in respect of the relevant NExA Supply Meter Point.

expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

Implementation would be expected to better facilitate this relevant objective.

Failure to implement this proposal would unnecessarily restrict the availability of gas in storage and reduce the economic and efficient operation of the GB gas market. As use of Rough storage is permitted to all system users through regulated contractual firm and interruptible service offerings delay in accepting this modification could impact on competition between system users – especially those customers who have made a firm booking of storage.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), 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 enhancing part of the arrangements by which gas can be injected into storage to restore stocks to a high level, implementation would be expected to better facilitate achievement of this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to better facilitate this relevant objective.

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

Failure to implement this proposal would unnecessarily restrict the availability of gas in storage and reduce the economic and efficient operation of the GB gas market.

Access to gas storage is recognised as a key component of a well functioning energy market; it allows suppliers to compete for customers through lowering their costs through flexibility, facilitating their balancing operations and enables them to provide greater security of supply. In addition the safety monitor regime applies in respect of long range storage (ie Rough) and therefore sufficient stocks are paramount to efficient system operation.

Non implementation might unnecessarily restrict the availability of gas in store in both summer and winter and thereby its commercial availability to the

network when Users require to withdraw this gas. It would also affect the liquidity of the gas markets as lower than necessary storage stocks would impact on the 'supply' options available to users. There would also be a detrimental effect on the flexibility available to the market on the Day.

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

a) Implications for operation of the System:

Implementation would not create any operational difficulties to National Grid NTS. Flows within the NTS would be affected but this could be considered as characteristic of more effective use of System capability.

b) Development and capital cost and operating cost implications:

None identified.

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

Not applicable.

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

Not applicable

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

As implementation would not cause operational difficulties, no such consequence has 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

None identified.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Implementation would provide greater flexibility in use of the Rough Storage Facility.

Development and capital cost and operating cost implications

None identified.

Consequence for the level of contractual risk of Users

Implementation would be expected to reduce the level of contractual risk for Users injecting gas into the Rough Storage Facility.

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

As Connected System Operator, the operator of the Rough Storage Facility would be able to offer more flexible terms to its Storage Users.

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

None identified

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

Advantages

- Aligns the commercial arrangements contained within the SCA to the physical capability of the network
- Extends to Rough storage users the ability to make full use of the increased capability of both the facility and the network
- Enables the release of additional injection capability to storage users on a firm basis, rather an interruptible basis.

Disadvantages

- None identified.

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

BG Gas Services Ltd	(BG)	Support
BP Gas Marketing Ltd	(BP)	Support
British Gas Trading Limited	(BGT)	Support
Centrica Storage Ltd	(CSL)	Support
E.ON UK plc	(EON)	Support

EDF Energy plc	(EDFE)	Support
ENI UK Limited	(ENI)	Support
Gaz de France ESS (UK) Ltd	(GdF)	Support
Gazprom Marketing & Trading Ltd	(Gazprom)	Support
National Grid Gas Distribution plc	(NGD)	Support
National Grid NTS	(NGNTS)	Support
Nexen Energy Marketing London Limited	(Nexen)	Support
RWE Npower and RWE Trading & Supply GmbH	(RWE)	Support

All thirteen responses supported implementation. This included RWE once NGNTS had published its response.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

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

Implementation is not 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

The Proposal could be implemented with immediate effect following direction from Ofgem.

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

No implications of implementing this Modification Proposal upon existing Code Standards of Service 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 15 May 2008, of the 8 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of

implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction] from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

None required

For and on behalf of the Relevant Gas Transporters:

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