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Dear Julian

UNC Modification Proposal 0067: 'Compensation payments to Users whose gas flows are curtailed into the system following instructions received from the NEC'

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Thank you for your invitation seeking representations with respect to the above Modification Proposal.

National Grid Gas plc (UK Distribution) ("Distribution") is of the opinion that this modification should not be implemented.

While Distribution understands the motives behind the raising of this proposal, and applauds other steps being taken to ensure that market mechanisms remain in operation for the maximum amount of time, it does not believe that this proposal is a continuation of that philosophy.

Distribution does not believe that this proposal would instill correct behaviours from market participants if they knew they were immune to consequences to the market during an emergency. Since it is not clearly defined in the proposal what "financial loss" means: for instance, does it include *any* imbalance charges incurred by the loss of storage supplies; does it include the additional cost of gas purchased to replace the loss of storage supplies, does it include the cost associated with employing extra resources to cover the loss of storage supplies, does it require affected shippers to have used best or reasonable endeavours to resolve rectify theirs respective positions before a claim is valid, it is not clear how significant the costs could be that would be ultimately smeared on other industry participants?.

In any event, a compensation culture, as advocated by this proposal, does not incentivise market participant to resolve their own problems with demand and supply side management. To implement this proposal is the first step to suspending the market.

Distribution could countenance the concept of compensation, for say the first day of an emergency, (since such an event provided an element of shock to the market which would require limited intervention, and indeed Distribution supported such an initiative in its response to proposal 0052,) but to provide compensation, throughout what could be a prolonged period, is simply too great a skew on the market.

If this proposal is implemented, consideration should be given to time-limiting claims to the period immediately after the declaration of an emergency and, in any event, implementation should be time-limited to the current winter period.

Smear costs applied in this way are difficult for shippers to quantify, and therefore provides risk in the commercial environment, with the associated detrimental effect on competition: relevant objectives would not be furthered by implementation. Indeed, if smear costs were that significant, the viability of some users could come under threat.

Yours sincerely,

Declan McLaughlin