

Representation For. 0071a
"User Compensation for NEC Storage Curtailment"
Version 1.0

Date of Communication: 19/12/2005
External Contact: Charles Ruffell(RWE Npower Plc)
Slant: Against
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Abstract

Mr Julian Majdanski
Secretary, Modification Panel
Joint Office
National Grid Transco

Your ref 0071/071A

Our ref

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Urgent Modification Proposal 0071: User Compensation for NEC Storage Curtailment

Urgent Modification Proposal 0071A: User Compensation for NEC Storage
Curtailment (Alternative)

Dear Julian

Thank you for inviting us to comment on these urgent modification proposals.

RWE npower does not support implementation of either urgent modification proposal 0071 or urgent modification proposal 0071A.

Although we had some reservations, we gave our qualified support for urgent modification proposal 0052 'Storage Withdrawal Curtailment Trade Arrangements in an Emergency'. This was given on the basis that we agreed with the principle that shippers booking storage capacity should be protected from exposure to marginal cash out prices in the event they are prevented from using it in accordance with their contractual entitlements by the action of the National Emergency Co-ordinator.

Urgent modification proposal 0071 now 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. It is not clear to us that the basis of the payment adequately compensates for the opportunity costs of not using storage and having to source alternative supplies. In addition, we agree with the proposer of 0071A that changing the SWCQ mechanism may reintroduce the incentive on Users to withdraw gas from storage ahead of a potential NGSE.

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.

We do not accept that this will weaken a shipper's incentive to balance, as not only will there still be very strong commercial incentives to do so but shippers also have a legal duty to co-operate with the supply and demand side steps defined in the UNC and the NEC Safety Case which are adopted once an emergency is declared.

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.

We would be happy to support a modification to correct this issue.

On balance, although we recognise there may be weaknesses with 0052, we would prefer to leave the principle of the SWCQ Trade that it introduced unchanged and develop any future revisions in a more considered way as part of Ofgem's wider review of emergency arrangements.

We hope these views are helpful and would be happy to discuss matters further.

Yours sincerely

By Email So Unsigned

Charles Ruffell

Economic Regulation