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10 October 2005

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

**Urgent Modification Proposal 0050: Storage Monitor Adjustment**

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above urgent modification proposal.

We are surprised that this proposal has been raised as urgent and so close to the winter period. We note from the proposal itself and Transco NTS's subsequent presentation to the Transmission Workstream meeting on 6 October that Transco NTS now believes that there might be a conflict between its GS (M) R obligations and the UNC. We would observe that the existing arrangements in the UNC were introduced as a consequence of the removal of top-up arrangements last year and amendments to Transco NTS's safety case. We understand that such revised arrangements have, to date, been considered adequate and question why this issue has only suddenly come to light. Furthermore, we are unclear whether there is an actual discrepancy or if this is simply a matter of Transco NTS's interpretation of its GS(M)R duties. Our concern is that the consequences of implementing the proposal as drafted have significant commercial implications for shippers, storage operators and customers, but not Transco NTS.

More generally, whilst we agree that safety and security of supply issues are of paramount importance, we strongly believe that normally the arrangements for continuity of supply should be known in advance of the winter period to allow market participants to plan appropriately to meet their respective obligations. We are disappointed that yet again Transco NTS has raised a modification proposal requiring the industry's attention on fast-track timescales using security of supply as the justification for urgent status.

Turning to the detail of the proposal itself, we would offer the following comments:

In principle it does not appear unreasonable that Transco NTS should be able to adjust the safety monitor levels in either direction, to take account of changes in the information available to it. However, as drafted the proposal leaves too much to Transco NTS's discretion and places too much uncertainty on shipper/suppliers who are reliant on storage in order to maintain supplies to their customers.

If implemented as drafted Transco NTS would be able to increase, with no consultation and no notice, the Storage Monitor Levels during the coming winter. Such increase would be on the basis of "any change in Transco NTS's estimates of expected deliveries to or offtakes from the Total System". SSE believes that as ultimately the risk of any increase to the Storage Monitors is borne by Storage Operators, shippers and customers, this could have unforeseen consequences on the wholesale gas market. We consider that if Transco NTS is to have the ability to increase the monitor levels, parties should have greater certainty about the specific circumstances under which this could happen.

For example:

- would there be a materiality test or a minimum percentage change before the levels would be increased; and
- would Transco NTS publish the rationale under which it decided to increase the monitor levels?

Clearly if implemented this proposal would add to the uncertainty that any party with an interest in storage facilities faces and heighten concerns that storage users might not only be unable to access the rights that they have purchased to meet the demands of their customers over the winter period, but also be denied such rights without compensation.

SSE would also note that in accordance with the UNC, the proposed Storage Monitor Levels were notified at the end of May this year and consulted upon as part of NGT's winter outlook report. SSE responded with detailed comments in the middle of July yet Transco NTS has only recently published its conclusions document. We are still considering this document and await with interest the publication of the methodology used to calculate the 2005/06 monitor levels, which we understand to be imminent. However, as the Monitor levels have now been formally set, because the methodology lies outwith UNC governance arrangements, there would appear to be no scope for them to be modified, except by Transco NTS. Taking into account the powers conferred on the NEC via its revised Safety Case, in our view Storage Operators, shippers and customers are in a worse position going into the coming winter than we were under the old top-up arrangements. This is worrying when the objective of removing top-up was to remove inappropriate Transco NTS intervention and allow the market to respond.

We therefore do not agree with the argument that the provision of reasonable economic incentives for suppliers to meet security standards will be enhanced by this proposal. The unforeseen consequence of implementing this proposal could be either to deter parties from withdrawing their gas from storage in case it led to an increase in the monitor levels, or alternatively to prematurely withdraw their gas from storage so as to ensure that they can access it. Either way such behaviour would have a detrimental impact on the operation of the market over the coming winter. It would appear that the proposer has not considered such issues.

We consider that there remains opacity about the process that Transco NTS will follow in response to information that the storage monitor levels are at a potential or actual breach level. We note that Transco NTS intends to consult on its System Management Principles Statement in the near future and hope that it will provide greater clarity.

In conclusion therefore, SSE does not object in principle to Transco NTS having the ability to alter monitor levels in both direction, but strongly objects to the mechanism proposed by which this is done. The reason for this is that the proposed mechanism places undue risk on storage operators, shippers and suppliers, who could see important storage withdrawals halted with little warning and without the means to predict the change.

SSE would like to see the ability to alter monitor levels supported by a clear and transparent methodology and would like to see this methodology form part of the UNC.

I hope that our comments have been helpful. Please do not hesitate to contact me in the first instance should you wish to discuss any of the points raised in our response.

Yours sincerely

Katherine Marshall  
Market Development