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The Joint Office, Relevant Gas Transporters and other
interested parties

Direct Dial: 020 7901 7355
Our Ref: UNC/MOD/067

15 November 2005

Dear Colleague

Request for Urgent Status for modification proposal 067 'Compensation payments to Users whose gas flows are curtailed into the system following instructions received from the NEC'

Following consideration of the request that modification proposal 067 '*Compensation payments to Users whose gas flows are curtailed into the system following instructions received from the NEC*'¹ follow urgent procedures, Ofgem has today agreed to that request.

On 10 November 2005 Ofgem approved Urgent UNC Modification Proposal 050 '*Storage Monitor Adjustment*' which amended the circumstances under which National Grid National Transmission System (NG NTS) may make adjustments to the Safety and/or Firm Gas Monitors². This modification was implemented with effect from 11 November 2005. Whilst Ofgem considered that, on balance, UNC Modification Proposal 050 should be approved given its positive effects in terms of enhanced efficient and economic operation of the system, it also considered that there may be negative effects on competition. In particular, Ofgem considered that the absence of compensation under the Safety Monitor arrangements may not promote competition.

Urgent modification proposal 067 seeks to provide appropriate compensation for storage users who have had their flows from storage curtailed by notice from the Network Emergency Coordinator. The Proposer considers that given the urgency and subsequent implementation of UNC modification proposal 050, this further proposal, 067, should be granted urgency and put in place for this winter. The proposer considers that the proposal will improve security of supply by removing any perverse incentive to withdraw gas from storage in the event of an impending breach of a storage monitor. The proposer also considers that this proposal will reduce the level of contractual risk for storage users, and remove a potential distortion of competition that they consider arises from the current storage monitor arrangements.

In reaching its decision, Ofgem has considered the details contained within the modification proposal. Ofgem considers the proposer's justification for urgency accords with Ofgem's own guidelines for granting urgency status to a modification proposal³. In particular, Ofgem considers that if the proposed changes to the arrangements are treated as non-urgent, this could have an impact on security of supply during the winter ahead. Ofgem also considers that if the modification proposal

¹www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12811_050D.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/gasgovernance

²www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12847_U067Prop.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/gasgovernance

³http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf

were to follow non-urgent procedures, there is a risk that, were the modification proposal to be subsequently implemented, there would be insufficient time for the market to properly deal with the likely impact of the modification proposal and react accordingly prior to winter 2005/06 peak demand periods. Additionally, Ofgem considers that if this modification proposal is not treated as urgent there may be a likelihood of significant commercial impact on industry parties.

For the avoidance of doubt, in accepting this request for urgency, Ofgem has made no assessment of the merits of the modification proposal and nothing in this letter in any way fetters the discretion of the Authority in respect of this modification proposal.

Urgency Timetable

The granting of urgent status and adherence to the timetable below would ensure that the proposal is in a position to be decided upon and if appropriate implemented during the early part of this winter. The timetable for this modification proposal will therefore be as follows:

Sent to Ofgem requesting urgency	14/11/2005
Ofgem grant urgent status	15/11/2005
Urgent modification proposal issued for consultation	15/11/2005
Closeout for representations (5 business day consultation)	22/11/2005
Mod Report issued to Modification Panel	25/11/2005
Modification Panel Recommendation	01/12/2005
Ofgem decision expected week commencing	05/12/2005

If you have any queries in relation to the issues raised in this letter, please feel free to email modifications@ofgem.gov.uk.

Yours sincerely,



Nick Simpson
Director, Modifications

Signed on behalf of the Authority and authorised for that purpose by the Authority