

Representation for UNC modification. 071 and 071a

"User compensation for NEC Storage Curtailment"

Date of Communication: 19/12/05
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Strictly Confidential: No

Abstract

Dear Julian

EDF Energy welcomes the opportunity to respond to these 2 urgent modifications 071 and alternative 71a "User Compensation for NEC storage curtailment ". EDF Energy does not support implementation of NG Gas's (NGG) modification 071 as we believe it does not better facilitate the relevant objectives of the GT licence but we would like to offer qualified support for E.On's alternative modification 071a for the reasons below.

However, we would first like to point out that this recent spate of Urgent modifications make it difficult for gas Shippers and Suppliers to run our businesses efficiently and mitigate our risks. We, like most other users of Storage gas have bought our gas requirements in advance of winter based on a risk position which we can manage and to have rapid and extensive regulatory changes with short-timescales is increasing our risks this winter. Two business days to understand and respond to what are 2 intricate modifications is clearly not sufficient. We recognise that Ofgem does not raise modifications but we hope that Ofgem take this into when deciding on which modifications to implement this winter and which ones should be left to discuss in more sensible timescales for next winter.

EDF Energy believes that the calculation used to derive the appropriate level of compensation in modification 071 is fundamentally flawed as it uses an average summer price as the minimum value of that gas in store. This assumption is clearly incorrect in many cases as Users could have injected gas outside the summer months, as normal at facilities with fast cycling rates or on the highest priced days in the summer period April to September. In fact significant volumes of gas are being re-injected at present in the middle of winter. Also, having this price as the basis for calculating storage curtailment compensation might change shippers injection behaviour if they believe an emergency is likely.

Also, the proposal does not provide sufficient protection against market prices given that it only offers to pay compensation at SAP whereas Shippers use stored gas as a means of protecting against highest priced days and therefore SMP Buy price. It is important to note that Shippers need to be incentivised to keep gas in store to avoid instigating a monitor breach and thus an emergency. In this respect it is likely that NGG will have to perform more residual balancing to

resolve the issue of Users prematurely withdrawing their gas from store to avoid getting cashed out at less than market prices, contrary to the proposer's view that this modification will reduce its balancing role. This could have a detrimental effect on security of supply which is what E.On's original proposal 052 was trying to avoid.

Alternative Modification 071a

EDF Energy believes that E.On's alternative modification is an improvement upon modification 071 as it does not distort the incentives for keeping in gas in store and effectively retains a similar amount of compensation proposed in their original modification 052 which Ofgem recently implemented. This is because under modification 052 a User is protected against SMP Buy prices by having its imbalance volume kept whole by the amount of nominated gas from store by paying 30 days average SAP which is similar to having compensation of SMPBuy minus 30 days SAP proposed in modification 071a.

Modification 071a also addresses Ofgem's main concern with modification 052 of being able to derive a benefit for more gas than one has in store. We agree with the calculation for limiting the volume a User can claim for as per the methodology used in NGG's modification 071 and retained in E.On's modification 071a.

We therefore believe E.On's modification better addresses Ofgem's concerns in meeting the relevant GT Licence objectives but we still believe that there is a better alternative to accurately compensating Users for curtailed storage gas. We believe that the best and most efficient form of compensation is for Users to have their imbalance position kept whole as if their curtailed gas nomination had flowed which effectively avoids the need to calculate a "market price" of equivalent value. NGG would then take title to gas and re-allocate it to the industry by way of an auction or similar process after the emergency period has lapsed. We would welcome Ofgem's views on this suggestion.

We hope our comments have been useful but please contact me on the number below if you wish to discuss further.

Regards

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