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Dear Julian

UNC Modification Proposal 0071 / 0071a: 'User Compensation for NEC Storage Curtailment'

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 modification proposal 0071 should be implemented and that the alternative, 0071a, should not be implemented.

We have reached this position on the basis that in the event that an emergency is declared shippers should still be incentivised to manage their balance positions and not be immune to market events.

During a Stage 1 emergency the market is still in effect; gas will be traded (if no gas is available then further NEC executive action will be required) and the residual balancing role will still be being undertaken by National Grid. Since the introduction of storage monitors to replace top-up, it has always been the case that withdrawals from storage could be curtailed during a GS(M)R NGSE. It is simply the cost of any imbalance which has now changed with the implementation of proposal 0044.

There are tensions associated with implementation of a regime that allows demand-side and supply-side executive actions being taken while the market is still in operation and there appears to be concerns for shippers that are particularly reliant on storage to their demands.

Distribution has always supported the introduction of commercial arrangements that provide some latitude for shippers to mitigate the effects of unforeseen circumstances which prevent the shipper from using stored gas to meet its peak demand. However, we expressed concerns in our representation to proposal 0052 at allowing this cover to extend into periods with the market still in operation, allowing the shipper to balance using "virtual" deliveries.

We have similar concerns if the shipper was fully compensated for any imbalance which in its opinion was a result of not being able to use its curtailed storage deliveries.

The current regime has been created out of the desire to uphold 3 principles which are not mutually complimentary, an emergency could mean a shipper would be unable to draw on supplies

specifically put aside to meet peak demands; an acceptance that potential extra cost should be offset in some way and a desire to keep the market working to attract all available supplies. Without some form of intervention a shipper that suffers a loss off storage supplies will be exposed to additional cost. However, we are of the view that it appropriate not to fully, or over-compensate, the shipper to ensure the incentive for shipper to physically balance supply and demand is maintained.

A fair balance would seem to be that the curtailment of storage (in the same way as any other loss of supply) should not absolve the shipper of its responsibility to physically balance and any arrangements in force during an emergency should not remove the effects of the market from shipper's decision making.

Hence, compensation should be fair, not over stated and continue to require shippers to balance their positions to the best of their ability, thereby ensuring the furthering of the relevant objective relating the "efficient and economic operation of the Pipe-line system". This mechanism prevents the worst of any potential reliance on virtual balancing and reduces the amount of money that may be smeared through neutrality, further the relevant objective that relates to promoting competition between shippers and suppliers

Therefore, on balance, we support the intermediate solution that leaves a shipper exposed to the market but protected by compensation from its worst effects (as reward for taking prudent actions before the winter) so as to encourage a shipper to source supplies or instigate its own demand-side action. To do otherwise, and allow complete insulation from the market, would raise questions over the whole appropriateness of the current methods of dealing emergencies.

Additionally, Distribution does not believe it is appropriate to have any form of cost pass through to the residual balancer since it not the actions of National Grid that have caused GS(M)R NGSE to occur.

To summarise, Distribution believe that a compromise solution that incentivises active participation by all shippers, including curtailed shippers, in the market is the appropriate way forward.

Yours sincerely,

Declan McLaughlin