

CODE MODIFICATION PROPOSAL No. 0067

"Compensation payments to Users whose gas flows are curtailed into the system following instructions received from the NEC"

Version 1.0

Date: 14/11/2005

Proposed Implementation Date: 01/12/2005

Urgency: Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

This modification intends to provide appropriate compensation for storage users who have had their flows from storage curtailed. The proposal will enable Users to claim compensation under new rules introduced in section Q of the UNC for gas unable to flow due to any notice received from the Network Emergency Coordinator (NEC). Due to the recent approval of modification 050 CSL considers the modification should be treated as urgent and put in place for this winter.

It is proposed this modification should proceed directly to consultation.

Nature and Purpose of Proposal (including consequence of non implementation)

Summary of Proposal

It is now widely acknowledged that the current storage monitor regime has a number of shortcomings, including discrimination against those shippers booking physical storage capacity (acting reasonably under their licence obligations to cater for their peak supply licence requirements) as compared to shippers not booking a storage service. In the event of an emergency being declared, storage shippers would be unable to access stored gas due to circumstances beyond their reasonable control, namely a declaration of a system emergency by the NEC. This sequestration may serve as a disincentive to book storage and may prejudice further storage development which will impact medium and long term security of supply.

The level of discrimination against storage shippers can be addressed in the short term through proposals to allow for ex post compensatory payments similar to existing contractual rights contained in the UNC during emergency arrangements for beach gas.

CSL will also shortly bring forward proposals for future winters starting from winter 2006/7 to address the shortcomings of the existing storage monitor regime. We firmly believe that the current storage monitor regime discriminates against those shippers booking storage and acts as a disincentive to increasing the size of indigenous storage capacity be that through expansion of existing facilities or new build.

Nature of Proposal

Where a User (the "**claimant**") believes that it has suffered a financial loss by reason of being unable to flow gas onto the Total System on a Day during an Emergency because of a direction from the NEC:

(a) the claimant may within such time as NG NTS shall reasonably require submit to NG NTS a claim together with details of the basis on which it believes it suffered a financial loss and the amount of such loss (factoring in any provisions contained within the UNC);

(b) NG NTS will appoint an independent accountant or other appropriately qualified person as "**claims reviewer**" to review each claimant's claim and advise NG NTS of whether the claim appears to the claims reviewer to be justified and the amount which (in the claims reviewer's opinion) the claimant should be paid;

(c) the claimant shall be required (as a condition to its claim being considered, but subject to the claims reviewer accepting a reasonable obligation of confidence) to provide such information, access to records and cooperation as the claims reviewer shall reasonably require;

(d) the fees and costs of the claims reviewer shall be paid by NG NTS and shall be additional Monthly Adjustment Neutrality Costs for the month in which they are paid;

(e) NG NTS will (after consultation with the claimant and the Authority) pay to the claimant the amount advised by the claims reviewer (unless on NG NTS's application after consultation with the claimant the Authority shall give Condition A11(18) Approval to NG NTS's paying a different amount).

Consequences of non implementation

The continued lack of compensation for storage curtailment will distort competition by discriminating between storage users and other market participants due to the commercial framework established by the current storage monitor regime.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

CSL believe this Proposal would, if implemented, better facilitate the Relevant Objectives specified within the Gas Transporters Licence by addressing discrimination and enabling undistorted competition between relevant shippers providing for the efficient and economic operation of the pipe-line system.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

We believe that this modification 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 or an unforeseen amendment to the storage monitors as permitted under modification 050. As a consequence storage shippers will continue to value storage services against other substitutable products, providing greater certainty to storage developers to develop storage facilities and products that benefit security of supply in terms of resilience/duration during not only winter but also summer periods.

Furthermore the proposal will reduce the level of contractual risk for storage users through the storage monitor regime which as structured results in a cross subsidy from storage users to other market participants and acts as a disincentive to invest in and use storage facilities. The proposal will reduce the distorting effect of the storage monitor regime and the operation of the market and reduce operational costs and levels of contractual risk for all market participants.

Code Concerned, sections and paragraphs

UNC TPD
Section Q

Proposer's Representative

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Proposer

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Signature

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