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Dear Sonia

Storage Services Contract Modification Proposal No. 03

Ofgem¹ has carefully considered the application by Centrica Storage Limited (CSL) sent to the Gas and Electricity Markets Authority (the Authority) by letter dated 5 December 2005 to approve Storage Services Contract (SSC) Modification Proposal 03 – Revision to CSL Injection Maintenance Days– Ref SSC Clause 11.7 (the Proposal).

The Authority has decided to approve the Proposal.² This letter explains the background to the Proposal and sets out the reasons for the Authority's decision.

Background

Clause 11.7 of the SSC states that CSL shall use its reasonable endeavours to:

- (a) secure that Days³ during the months of July, August **and September** in any Storage year are not Injection Maintenance Days;
- (b) co-ordinate with Transco in carrying out maintenance to injection facilities with Transco's maintenance to those parts of its system affecting the ability to make available Gas at the Storage Connection Point.

This effectively means that the injection facilities of the Rough Storage Facility may not be withdrawn for maintenance during July, August or September unless they are

¹ Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² Under the terms of the Undertakings given by Centrica Plc and Centrica Storage Limited to the Secretary of State for Trade and Industry pursuant to Section 88 of the Fair Trading Act 1973 (the Undertakings) CSL is required to submit an application to Ofgem for it to approve proposed changes to the SSC.

³ Unless the context otherwise requires, words and expressions used in the SSC shall bear the same meaning in this letter.

withdrawn to co-ordinate with National Grid⁴ NTS (NG NTS) in carrying out maintenance at the Easington AGI. Historically CSL has performed annual maintenance each May.

On 3 October 2005 CSL published its consultation in respect of the Proposal on the CSL website.⁵ The Proposal seeks to amend the SSC to enable CSL to perform maintenance for future years in September under Clause 11.7(a) of that agreement.

During the planning period for the summer 2005 maintenance CSL was notified by NG NTS that work would be performed at the Easington AGI over September 2005. Therefore, CSL opted to carry out maintenance at the Rough Storage Facility over the same period to maximise injection availability as permitted under Clause 11.7(b) of the SSC.

The Proposal

In its proposal, CSL notes that it considers that carrying out annual maintenance in September 2005 as part of its summer 2005 maintenance program was successful. This was in respect to both the volumes of gas stored before Q4 2005 and the subsequent increased injection capacity being released to customers throughout the injection season. CSL considers that the pressure gradient within the Rough Storage Facility reservoir is highest during September and this would therefore create an injection rate benefit and increased injected volume.

CSL is also of the opinion that maintenance closer to the winter period enables better planning and more effective maintenance of production plant thereby improving reliability and security of supply.

CSL therefore wishes to enable September to be an option for a maintenance period for future storage years under Clause 11.7(a) of the SSC. CSL wishes to retain the option of maintenance days in May and June to cover the possibility of the need to perform work after the winter production season and also the future possibility of extending the window between major shut downs to 18 months.

CSL proposes that Clause 11.7⁶ of the SSC be amended to state that CSL shall use its reasonable endeavours to:

- (a) secure that days during the months of July and August in any Storage Year are not Injection Maintenance Days;
- (b) co-ordinate with Transco in carrying out maintenance to injection facilities with Transco's maintenance to those parts of its system affecting the ability to make available Gas at the Storage Connection Point.

Respondents' views

⁴ National Grid Gas plc. Transco plc changed its name to National Grid Gas plc on 10 October 2005.

⁵ <http://www.centrica-sl.co.uk/Storage/StorageServicesContract.html>

⁶ In the original proposal CSL referred to the amended clause as 11.8. CSL have since confirmed that this was a typographical error and the amended clause should be 11.7.

CSL did not receive any responses to the Proposal.

Ofgem's view

Under the terms of the Undertakings there are no criteria specified under which Ofgem is required to consider a proposal to modify the SSC. In the context of the Fair Trading Act 1973 (under which the undertakings were given) Ofgem considers it appropriate to apply a similar public interest test focussing on competition as was applied under that Act at the time the Undertakings were entered into. More Specifically, Ofgem has taken the view that it is appropriate to consider the Proposal in the light of its wider statutory duties, in particular its principal objective to protect the interests of consumers in relation to gas conveyed through pipes, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas so conveyed.

Ofgem considers that it is appropriate for CSL to have the option to carry out maintenance during September without relying on Clause 11.7(b) of the SSC and therefore considers it appropriate to amend the current clause that prevents this. CSL considers that implementation of the Proposal would ensure that the reliability of the plant would be improved and that it would allow a greater proportion of summer gas to be injected into Rough at a higher rate. Ofgem notes that during the consultation period, no objections were raised to this proposal by CSLs' customers. Ofgem therefore considers that based on this, it is content to let Clause 11.7(b) be amended accordingly based on CSL's justifications contained within the Proposal.

The Authority's decision

For the reasons outlined above the Authority has decided to approve the Storage Services Contract (SSC) Modification Proposal 03 – Revision to CSL Injection Maintenance Days – Ref SSC Clause 11.7.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact Ed Carter on 020 7901 7304.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sonia Brown', with a stylized, circular flourish at the beginning.

Sonia Brown

Director, Wholesale Markets

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