

CODE MODIFICATION PROPOSAL No. 0108
"Publication of Near Real Time Data at GB Storage Sites"
Version 1.0

Date: 16/08/2006

Proposed Implementation Date: 03/10/2006

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)

Centrica Storage Ltd (CSL) requests that the Authority determines that this Modification Proposal should be classed as urgent on the basis of an imminent date related event. It is proposed that the modification be implemented by 3rd October 2006 to coincide with the implementation of UNC 006 "Publication of Near Real Time Data at UK sub-terminals".

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

Introduction

UNC 006 "Publication of Near Real Time Data at UK sub-terminals" in its current form will facilitate discriminatory behaviour solely against Storage Operators. It will allow inefficient rents to be extracted from those operators thereby reducing the overall efficiency of the gas wholesale market and thus be detrimental to end customers.

This Proposal seeks to remedy these short comings by providing a single gas flow data point encompassing all Storage Facilities.

It is proposed that from the date of implementation of UNC 006 and for the purpose of publishing the volume (flow rate) of gas entering the National Grid Gas NTS' (NGG NTS) transportation network, all Storage Facilities including those Storage Facilities with a capability below 10 mcm/day, will aggregate their entry flows into a single entry point.

Background

UNC 006 was raised by energywatch in November 2004 and the Authority directed the implementation of the proposal in May 2006. UNC 006 will require NGG NTS to publish the volume of gas supplied to all entry points that are owned by NGG NTS and all entry and sub-terminals which are capable of accepting gas flows at rates greater than 10mcm/day.

Mechanism of Discrimination against Storage Operators

The implementation of UNC 006 introduces the opportunity for discrimination against Storage Operators because only this class of User includes those that are obligated to disclose other information that uniquely reveals their market position within the balancing period.

There are two defining characteristics which separate out this type of User from the generality of entry point Users.

Firstly, Storage Operators (notably TPA sites) contracted positions are disclosed, in advance, to the market. Commercial and regulatory obligations require these operators to publish customers aggregated nominations within the gas flow day. For example as contained within the Guidelines for Good TPA Practice for Storage System Operators agreed in March 2005. Users of non Storage Operator sub terminals or entry points are not obliged to provide this information in advance.

Secondly, some Storage Operators are further exposed by obligations to allocate their customer nominations whole (meaning that any shortfall in the physical flows from facilities are made up solely by the Storage Operator in the market).

Given this backcloth, disclosure of near real time information will provide the market with complete visibility on how such Storage Facilities are performing against their contracted positions and consequently, at times of stress, will allow inefficient rents to be extracted from such Storage Operators.

The majority of other entry points have multiple users and therefore actual User performance will not be as directly observable. Accordingly, all other gas shippers will maintain a level of commercial anonymity above that of Storage Operators and as such will not be exposed at times of distress.

Purpose

The purpose of this modification proposal is to mitigate the disadvantage that Storage Operators will be subject to as described above and enable System Users to compete on a more level playing field whilst still making the information available in aggregate form.

Consequences of Non-Implementation

CSL believes that there are three consequences of non implementation.

At times of stress, inefficient rents will be extracted from Storage Operators (and other market participants who happen to be holding short positions) and ultimately customers will be exposed to higher charges.

The current market signals which are encouraging the development of storage facilities will be impacted, potentially driving investment elsewhere.

Flows from smaller Storage Facilities will not be made available to the market.

Supporting Evidence

A similar issue has arisen in the context of short selling of shares. The Financial Services Authority (FSA) found that short selling is a legitimate investment activity but that increased transparency would be helpful so long as its benefits would outweigh any disadvantages. (Note 1. See FSA – Short Selling – Feedback on DP 17 (<http://www.fsa.gov.uk/pubs/discussion/fs17.pdf>), paragraph 1.2.) The FSA carefully considered whether to impose frequent disclosure obligations and concluded that a regime involving frequent disclosures could increase the risk of upward price manipulation because of the risk of squeezes to which short sellers could be exposed. (Note 2 See FSA – Short Selling – Feedback on DP 17 (see Note 1 above), paragraph 3.27). The same analysis applies here. Short selling of shares results in a situation in which the seller has an obligation to purchase shares in the market to cover its position (if that position is not already covered). The FSA's concern was that if the market were aware that a short seller was obliged to come into the market at a particular time, then it would lead to the risk of price squeezes. In the current situation, the effect of UNC 006 will be to notify intelligent suppliers of gas when they have an opportunity to apply a price squeeze. CSL submits that the approach adopted by the FSA is equally relevant to the situation with Storage Operators and applying a disclosure obligation to a single class of user when doing so would be likely to lead to price squeezes is contrary to the public interest and an orderly market for gas.

Summary

To avoid discriminatory behaviour and inefficient rents being extracted, this modification proposes that for information purposes all gas entering the NTS from Storage Facilities, including those below the existing arbitrary threshold, be combined for reporting purposes into one storage input flow number thereby securing the effective competition between relevant shippers by removing this discriminatory information obligation which unduly exposes the commercial exposure of certain types of system users.

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

Failure to implement this proposal would undermine and skew the wholesale trading markets leading to potentially inefficient gas prices through excessive volatility and/or distorted investment signals. By providing combined gas entry flow information for all Storage Operators the market will be supplied information which will further the objective of creating a fully competitive GB gas market at numerous levels of the gas chain i.e. gas shipping, trading and supply.

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

This proposal is supported by the members of the Storage Operators Group listed below:

Star Energy Group plc

INEOS Enterprises Ltd

Warwick Energy Limited

Canatxx Gas Storage Limited

National Grid LNG Storage

Portland Gas Ltd

WINGAS Storage UK Ltd

Centrica Storage Ltd

Code Concerned, sections and paragraphs

Transportation Principal Document
V, Annex VI

Proposer's Representative

Roddy Monroe (Centrica Storage Ltd (CSL))

Proposer

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Signature

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