

**CENTRICA STORAGE LIMITED (CSL) – CONSULTATION PAPER
STORAGE SERVICES CONTRACT (SSC) MODIFICATION PROPOSAL
No.04**

Provision of Multiple Storage Services within the SSC

Date:	6 May 2008
Deadline for Responses:	6 June 2008
Proposed Implementation Date:	7 July 2008 (for Storage Year 2009/2010)

Process for SSC Modification

The procedure for changing the SSC is set out in paragraph 2.4 and Annex 1 of the Undertakings given by Centrica plc and CSL to the Secretary of State under the Fair Trading Act 1973 in December 2003.

- CSL has issued this Consultation Paper relating to SSC Modification Proposal 4 “Provision of Multiple Storage within the SSC” for consultation on the above date.
- On the same date, CSL has submitted this Consultation Paper to Ofgem, posted the Consultation on the CSL website and announced the consultation and process details on STORIT.
- Responses are invited and must be received by CSL by no later than 6 June 2008 (the Consultation Period).
- Not more than one calendar month following the end of the Consultation Period, CSL will send an application (the Application) to Ofgem seeking its approval of the proposed changes to the SSC.
- The proposed modification shall be deemed to have been approved by Ofgem unless CSL receives a veto from Ofgem by the later of one calendar month from the date of delivery of the Application or receipt of a request for further information from Ofgem.

Background

In response to the needs of our customers and requests from market participants, CSL is proposing to modify the SSC governing the sale of gas storage capacity at Rough. The SSC modifications proposed will:

- allow the introduction of an innovative entry-assisted within day and day ahead storage service (named respectively the C-Store WD Service and the C-Store DA Service) which provide for withdrawal of gas at the National Balancing Point (NBP) during the Winter Period

(0600 hours on 1 October to 0600 hours on 31 March) through the introduction of the concept of Throughput Capacity;

- provide for the existing within day SSC service to continue (but renamed the S-Store WD Service); and
- allow the introduction of a day ahead service with injection and withdrawal at the Storage Connection Point at Easington (the S-Store DA Service).

Customers will be not be restricted in their choice of products and may seek to purchase any combination of these 4 services.

The S-Store WD Service is the current SSC service offering which remains unchanged in all material respects.

The S-Store DA Service service resembles the current SSC service offering but introduces the day ahead concept where re-nominations are not allowed after 04:00 D-1 (2 hours before the gas day) other than in order to access interruptible capacity. The standard interruptible service (SIS) is available at ex-ante rates for holders of this product, but it will be interrupted before SIS nominations by customers under the S-Store WD Service and C-Store WD Service.

The new C-Store WD Service and C-Store DA Service are innovative entry-assisted services which will share many of the operating characteristics of the existing standard product. It is proposed that these services will bundle storage capacity with transportation to enable gas withdrawn from Rough during the Winter Period to be delivered direct to the NBP.

Delivery to the NBP is facilitated through the concept of Throughput Capacity, which (whilst held by the customer) ensures that gas nominated for withdrawal during the Winter Period is delivered to the NBP by means of an NBP transfer. Throughput Capacity only applies to C-Store Within Day and Day Ahead services during the Winter Period in each storage year. It can be freely traded but cannot be used to nominate gas for withdrawal under any service other than the service in respect of which it was originally purchased. The quantity of Throughput Capacity held by the customer in respect of C-Store WD Service and/or the C-Store DA Service will deplete as gas is withdrawn under that service during the Winter Period. In the summer (and upon a customer ceasing to hold Throughput Capacity), gas withdrawn will be delivered to the Storage Connection Point.

A Standard Bundled Unit (SBU) for each of the 4 services will comprise the following elements (as at present):

- 1kWh/day of Deliverability;
- 66.593407 kWh/day of Space; and
- 0.351648 kWh/day of Injectability.

Customers taking the C-Store WD Service and/or the C-Store DA Service will also be entitled to 183kWh of Throughput Capacity for each SBU purchased. This gives customers the option to cycle their total storage inventory 2.8 times.

Under the C-Store WD Service re-nominations are permitted within day and SIS is available at ex-ante rates (granting interruptible withdrawal at the NBP during the Winter Period) with priority over SIS nominations from customers under the C-Store DA Service and the S-Store DA Service.

The C-Store DA Service is similar to the C-Store WD Service but introduces the day ahead concept where re-nominations are not allowed after 04:00 D-1 (2 hours before the gas day) other than to access interruptible capacity. SIS is available at ex-ante rates for holders of this product (with withdrawal at the Storage Connection Point) but the interruptible flow will be interrupted before SIS nominations from customers under the S-Store WD Service and the C-Store WD Service.

In respect of both the C-Store WD Service and the C-Store DA Service, SIS may be interrupted where CSL determines having regard to matters such as the cost of system entry capacity and the market price of gas at the NBP (C-Store Interruption Notice). For the avoidance of doubt, a C-Store Interruption Notice cannot be used to interrupt firm capacity.

STORIT will continue to receive notifications, track inventory, and facilitate secondary trading and the transfer of gas-in-store. Space and gas-in-store will be fully transferable between all services and customers will be able to move Space and Gas-in-Storage between each service they take, in order to make effective use of all their capacity rights. Deliverability, Injectability and Throughput Capacity purchased under a particular service are freely transferable between customers but may only be used to nominate gas within that service i.e. retaining the same operational characteristics.

Schedule 1 contains a table summarising the key distinguishing features of each of the proposed new Storage Services.

Justification for Modification

This modification is proposed in response to requests from market participants, coupled with CSL's desire to innovate its suite of products. The inclusion of Throughput Capacity and the provision of multiple storage products in the SSC could lead to a greater amount of gas being stored and a greater amount of gas being landed onto the NTS, thus improving the certainty of the UK's storage and security of supply situation. This is because CSL will be providing choice in terms of the type of storage service any user is able to purchase.

Nature of Proposal

In order to re-name our standard service offering (S-Store), introduce the day ahead variant of our current standard service offering, and introduce the entry-assisted storage service offering (C-Store), it is proposed that the SSC is changed in accordance with the mark up attached as Appendix 1. Schedule 2 contains a clause by clause explanation of the main changes which can be summarised as follows:

- SSC amended to provide for 4 services – (i) the existing service being defined as the “S-Store WD Service” and (ii) the new services being defined as the “S-Store DA Service”, the “C-Store WD Service” and the “C-Store DA Service”
- Where a Customer of either of the C-Store services holds Throughput Capacity, quantities of gas withdrawn from Rough during the Winter Period will be made available to the Customer by CSL at the NBP by means of an NBP Transfer
- Upon a Customer of a C-Store Service ceasing to hold Throughput Capacity (and in summer) gas withdrawn will be delivered at the Storage Connection Point at Easington
- Space and Gas-in-Storage held in respect of one Storage Service may be transferred and used in respect of any other Storage Service
- Deliverability, Injectability and Throughput Capacity held in respect of one Storage Service may only be used for that Storage Service
- Renomination under the day ahead services is not permitted other than in order to access interruptible capacity
- SIS will be interrupted in the following order (first to last): (i) Interruptible-only Customers (ie: those Customers without any Available Capacity) (ii) Firm-Interruptible DA Customers (ie: day ahead Customers in respect of their interruptible nominations) and (iii) Firm-Interruptible WD Customers (ie: within day Customers in respect of their interruptible nominations)
- In respect of SIS nominated pursuant to the C-Store WD Service gas withdrawn during the Winter Period shall be delivered at the NBP (unless a C-Store Interruption Notice is given)
- In respect of SIS nominated pursuant to the C-Store DA Service gas withdrawn during the Winter Period shall be delivered at the Storage Connection Point
- A C-Store Interruption Notice may be given by CSL in respect of the C-Store WD Service in order to curtail deliveries of SIS at the NBP. In deciding whether to issue a C-Store Interruption Notice, CSL have regard to matters including the cost of System Entry Capacity at Easington and the market price of gas at the NBP
- Overrun Charges in respect of C-Store will include the System Entry Overrun Charge for Easington
- In a Gas Supply Emergency delivery of gas at the NBP will be suspended and any withdrawal shall be at the Storage Connection Point. In such circumstances (and in the event of force majeure, interruption or CSL giving notice that Clause 10.4 applies) the

Customer and CSL are obliged to amend any subsisting Trade Nominations for the relevant Day

- Notwithstanding that withdrawal of gas under the C-Store services will be at the NBP (in the Winter Period and for so long as a Customer holds Throughput Capacity), CSL shall be entitled to force majeure relief in the same circumstances and to the same extent as for withdrawal of gas at the Storage Connection Point

Responses Invited

In line with paragraph 2.4 and Annex 1 of the Undertakings, CSL invites comments on the proposed changes by 6 June 2008. CSL expects to submit the Application to Ofgem shortly after that date seeking its approval to the proposed changes.

Any queries should be addressed as follows:

Sales and Marketing - James Lawson (+44 (0)1784 415304)

Legal - Nick Lumley (+44 (0)1784 415350).

Responses should be sent to Centrica Storage Limited, Venture House, 42 – 54 London Road, Staines, Middlesex, TW18 4HF, **marked “SSC Modification 04”**.

Alternatively responses may be sent by email to operations@centrica-sl.co.uk **marked the same**.

All responses will be sent to Ofgem.

Schedule 1

Key Features of each Storage Service

	S-Store WD	S-Store DA	C-Store WD	C-Store DA
Injection	Easington	Easington	Easington	Easington
Withdrawal	Easington	Easington	NBP during Winter Period	NBP during Winter Period
Renomination (after 0200 hours day ahead)	Permitted	Only to access SIS	Permitted	Only to access SIS
SIS	Priority access	Secondary access (but in priority to interruptible-only customers)	Priority access	Secondary access (but in priority to interruptible-only customers)
SIS withdrawal in winter period	Easington	Easington	NBP	Easington
Interruption of SIS due to efficient access by CSL to additional entry capacity	n/a	n/a	Yes	n/a

Schedule 2

Key SSC Amendments

Scope of Agreement and Storage Charges

Clause 2.2

Clarifies that Nominations for injection and withdrawal of gas must be in respect of a particular Storage Service.

Gas-in-Storage

Clause 3.1(A)

Refers to a "Gas Account Transfer" whereby a Customer may transfer Gas-in-Storage held under one Storage Service into another Storage Service (see Clause 6). This is required as a Customer may take more than one Storage Service and it will be necessary to allocate inventory to each one.

Clause 3.1(B)

This states that Gas-in-Storage held at the end of the Storage Year 2008-2009 shall be deemed held under the S-Store WD Service but that for subsequent Storage Years Gas-in-Storage shall be carried over under the Storage Service in respect of which it was held at the end of the previous Storage Year.

Clause 3.2(B)

Provides that, for the C-Store WD Service and the C-Store DA Service, gas nominated for withdrawal will be delivered to the NBP during the Winter Period provided that if the Customer does not hold sufficient Throughput Capacity then delivery will be to the Storage Connection Point.

Clause 3.2(C)

Applies the provisions of Schedule J (NBP Transfers) in relation to gas delivered at the NBP.

Clause 3.5(B)

Where gas is delivered at the NBP then the Customer loses any right or entitlement in respect of an equivalent quantity of Gas-in-Storage. This is necessary in order to reflect the fact that the NBP Transfers will be effected for zero consideration.

Registered, Available and Effective Capacity

Clause 4.2

This Clause sets out the key principle that Injectability, Deliverability and Throughput Capacity held in respect of one Storage Service may not be nominated in order to inject or withdraw gas under any other Storage Service. This is required in order to ensure that the basic characteristics of a service (eg: within day versus day ahead) remain unaltered. By contrast, Space (and Gas-in-Storage) are not so constrained.

Clause 4.4(b)

A Customer's Throughput Capacity holding for a Storage Year will be reduced by an equivalent quantity of gas withdrawn at the NBP from time to time. Such a reduction will also apply in the case of SIS nominated under the C-Store WD Service during the Winter Period as that quantity will be delivered at the NBP (cf: the C-Store DA Service where SIS quantities are delivered at the Storage Connection Point).

Capacity Charges**Clause 5.2(e)**

Although provision is made for a Throughput Capacity Charge, CSL does not intend to allocate any part of the SBU price to Throughput Capacity for the Storage Year 2009/2010.

Transfers**Clause 6.1**

Introduces the concept of a Space Account Transfer and Gas Account Transfer which are the mechanisms by which a Customer may transfer Space and Gas-in-Storage, respectively, between Storage Services.

Transfer Procedures and Effect**Clause 7**

There are consequential amendments in Clause 7 which deal with the process required to be followed in order to effect the transfers set out in Clause 6, including for Space Account Transfers and Gas Account Transfers.

Nominations**Clause 9.2(e)**

As a result of the introduction of multiple services, it will be necessary for Customers to specify the relevant Storage Service in respect of each Nomination.

Clause 9.9(B)

This prohibits renominations in respect of the S-Store DA Service and the C-Store DA Service other than in order to access SIS.

Allocation**Clause 10.1**

This disapplies Schedule H (Physical Service) in respect of the S-Store DA Service, the C-Store DA Service and the C-Store WD Service.

Clause 10.2

The principle of charges accruing separately for injection and withdrawal is maintained and will apply separately for each Storage Service – ie: no netting.

Clause 10.7(c)

In the event of a Gas Supply Emergency during the Winter Period, gas nominated for withdrawal at the NBP under either C-Store service shall only be delivered to the Storage Connection Point.

Clause 10.14

Each Party provides warranties to the other (based upon those contained in NBP '97) to demonstrate that, where necessary for the purpose of effecting NBP Transfers, it has ability to effect such trades.

Interruptible Space and Mandatory Withdrawals**Clause 13.1**

Interruptible Space Charges will be calculated on a per Storage Service basis. Customers can manage their Space and Gas-in-Storage through Space Account Transfers and Gas Account Transfers in order to minimise the risk of incurring such charges.

Clause 13.5(b)

In the case of a mandatory withdrawal (aggregate quantity of gas exceeds 80% of total space) Excess Gas-in-Storage is calculated for each Customer on an aggregated basis across all Storage Services held by that Customer.

Interruptible Deliverability and Injectability**Clause 14.1**

A number of new definitions have been introduced in order to deal with the hierarchy on interruption under multiple services. The key points are:

- The former definition of Firm-Interruptible Customer (a Customer with Available capacity) has been split into Firm-Interruptible WD Customer and Firm-Interruptible DA Customer in order to distinguish between the within day and day ahead Storage Services
- Similarly the former definition of Forward Non-Firm Implied Flow Rate has been split into Forward Non-Firm WD Implied Flow Rate and Forward Non-Firm DA Implied Flow Rate for the same reason
- A new definition of Forward Non-Firm NT Implied Flow Rate relates to the difference (for customers of the day ahead Storage Services) between the Forward Implied Flow Rate (ie: that implied from the nomination including SIS) and the Forward NT Implied Flow Rate (that implied by reference to the nomination at the Nomination Time – see below)
- The new definition of Forward NT Implied Flow Rate relates to the quantity nominated (by customers of the day ahead Storage Services) at the Nomination Time (see also the definitions of NT Implied Withdrawal Rate and NT Implied Injection Rate)

Clause 14.2

There are now 4 types of Interruption Notice:

- Primary Interruption Notice – this applies where interruptible nominations by Firm-Interruptible WD Customers are curtailed for reasons relating to the operation of the Rough facility
- Secondary Interruption Notice – this applies where interruptible nominations by Firm-Interruptible DA Customers are curtailed for reasons relating to the operation of the Rough facility
- Tertiary Interruption Notice – this applies where interruptible nominations by Interruptible-only Customers are curtailed for reasons relating to the operation of the Rough facility
- C-Store Interruption Notice – this applies where CSL determines that it is necessary to interrupt delivery to the NBP of interruptible nominations under the C-Store WD Service. When deciding whether to interrupt under this provision CSL will have regard to factors including the cost of system entry capacity and the price of gas at the NBP. In the event of a C-Store Interruption Notice then (subject to no other form of interruption notice having been given) CSL will make the gas available at the Storage Connection Point

Clauses 14.3 to 14.7

These Clauses deal with the hierarchy of interruption and set out the detailed rules that determine each Customer's entitlement under each type of notice. In relation to the first 3 notices the rules on SIS interruption can be summarised as follows (the order of interruption being first to last):

- Interruptible-only Customers – ie: nominations by Customers who do not hold Available Capacity
- Firm-Interruptible DA Customers – ie: SIS nominations by Customers under the S-Store DA Service and the C-Store DA Service but to no greater extent than the amount by which the quantity nominated at the Nomination Time exceeds Effective Capacity
- Firm-Interruptible WD Customers – ie: SIS nominations by Customers under the S-Store WD Service and the C-Store WD Service

Clause 14.8(B)

Under a C-Store Interruption Notice, a Customer may renominate the C-Store WD Service to a quantity permitted by CSL so that it takes all of the permitted quantity at the NBP. If it fails to do so then any excess interruptible quantity will be delivered at the Storage Connection Point. It should be noted that the Customer will, in any event, be obliged to amend its Trade Nomination in respect of the NBP Transfer in accordance with paragraph 10 of Schedule J.

Clause 14.15

This provides that SIS nominated and withdrawn pursuant to the C-Store DA Service will be delivered at the Storage Connection Point.

Overruns and Overrun Charges

Clause 15.3(b)(i)

In the case of the C-Store WD Service and the C-Store DA Service where Throughput Capacity is being used, overrun charges shall also include the system entry overrun charges payable to NGG.

Liability

Clause 17.3 and 17.13

Clause 17.3 has been amended and Clause 17.13 has been inserted to clarify that a Party's obligation to pay the other system marginal price in relation to default under an NBP Transfer is not subject to the liability caps contained in Clause 17.

Force Majeure

Clause 18.4(B)

This provides that CSL shall be entitled to Force Majeure relief in respect of gas delivered to the NBP in the same circumstances and to the same extent that it is entitled to such relief in respect of gas withdrawn at the Storage Connection Point. This reflects the fact that the C-Store WD Service and the C-Store DA Service are being offered to address Customer concerns regarding the availability of system entry capacity.

Registered Capacity Assignment

Clause 22

Amendments have been made to facilitate the assignment of Throughput Capacity.

Schedule I – Storage Services

This lists the 4 different Storage Services available under the modified SSC.

Schedule J – NBP Transfers

This Schedule contains the mechanism for effecting NBP Transfers in order to enable gas to be withdrawn at the NBP under the C-Store WD Service and the C-Store DA Service. Its provisions are based upon NBP '97 with cash out for default at system marginal prices. Paragraph 10 identifies circumstances where the Customer may be required by CSL to amend its Trade Nomination - ie: Force Majeure, Gas Supply Emergency, Interruption Notice or CSL making an election under Clause 10.4.