

Mr. Julian Majdanski
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29th June 2005

Dear Julian,

Modification Proposal 0021 - "Revision to the Emergency Cashout Arrangements"

Total Gas and Power Limited welcome the opportunity to submit the following comments in respect of urgent modification proposal 21.

We understand Transco consider proposal 21 will encourage shippers and suppliers to work with their customers to deliver a demand side response that may alleviate or prevent the occurrence of a NGSE. We interpret Transco's logic that in the absence of a demand-side response during a Stage 1 NGSE, if Transco initiate emergency interruption then shippers and customers will effectively forego some of the revenues available as a result of selling this interruption released gas on the market. This perceived loss of income, or so the argument goes, with 30 day sap provided as recompense for the deemed Emergency Trade, effectively maintaining the Shippers ex-ante emergency interruption position, will encourage relevant parties to provide a timely demand side response.

Whilst Transco's logic is compelling it does unfortunately ignore the realities of the customer supplier relationship and therefore brings into question whether the proposal will deliver the objective of timely demand-side management. We note that Transco have previously expressed a concern that Shippers have been 'signing away' their interruption rights. Many shippers/suppliers would concede that persuading customers of the benefits of including contractual provisions for shipper-initiated interruption has become increasingly difficult and hence in aggregate the level of this response has fallen.

This view has been confirmed on a number of occasions at Ofgems' Demand Side Working Group by customer representatives who acknowledge a reluctance to engage in contractual provisions for shipper-initiated interruption unless it is to provide 'genuine' system support to avert a NGSE. Shippers, however, are unlikely to be able to provide from the customer perspective, credible existence of a genuine system need when the response itself may prevent the occurrence of a NGSE.

Clearly, in respect of shipper nominated interruption, an information asymmetry and tension presently exists within the customer supplier relationship. One that is unlikely to be resolved by simply modifying the incentive framework. Customers have therefore recommended that Transco, regarded by customers as an impartial and credible party, should take the lead in offering a standard demand side management contract and replicate the success of transporter agreed demand-side services in the electricity market.

Such a standard contract could also be offered by Suppliers, however, the commercial



realities of individual suppliers attempting to insist upon shipper-initiated interruption whilst maintaining relative industry competitiveness should not be ignored. One can easily envisage a prisoners-dilemma scenario that leads to a breakdown in co-operation amongst suppliers given the nature of customer reluctance. Hence a supplier lead approach is only likely to be feasible if it forms part of a common license obligation upon suppliers to negotiate such terms from their customers alongside a Transco service confirming the existence or potential for a genuine system need/NGSE.

In summary, Total recommends that modification proposal 21 be rejected. The proposed approach ignores the fundamental concerns that exist between customers and suppliers in the area of shipper nominated interruption. Hence we reject the notion that modifying the incentive framework alone during an emergency will lead to more effective and timely demand side management. In the absence of our customer concerns being addressed and the alternative measures discussed above being adopted, proposal 21 will simply result in customers and shippers being penalised without still fully addressing demand side response concerns.

We have not commented upon the specific questions within the draft modification report since we believe the urgent route has not facilitated the development of a robust and intellectually rigorous proposal. This is disappointing as it seems apparent that with better planning this proposal could and should have followed the normal industry process.

Please feel free to contact me on the number below if you wish to discuss our response in more detail.

Yours sincerely,

(This message is sent electronically and is therefore not signed)

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