

Modification Panel Secretary
Joint Office of Gas Transporters

22 August 2005

Revision of the Emergency Cashout Arrangements - UNC0042 and 44

Thank you for the opportunity to comment on these urgent modifications in respect of the Emergency Cashout Arrangements in place during a Gas Deficit Emergency (GDE) and compensation and position adjustment for loads interrupted during such an emergency. We are again concerned that potential changes of the magnitude proposed in both modifications are being rushed through as urgent modifications.

CSL are sympathetic to the aims of the modifications but we believe that the changes are too significant to make without full consideration of the issues – not permitted by the timeframes provided. It is probable such changes (if implemented) would distort forward traded markets as a significant quantity of gas has already traded on the basis of the existing emergency cash out rules and shippers impressions of the likelihood of a GSE. We believe sufficient disincentive against exacerbating an emergency to seek the protection of neutral cash out rules exist through inter alia shipper licences, GSMR and general competition law and that a rushed assessment of new rules 5 weeks before the start of Autumn is not an efficient or effective process.

Furthermore CSL understands that Transco has modified its safety case in a way which will cause significant changes to the market with respect to emergencies. It is therefore difficult to contemplate these varied modifications whilst potential changes to the Gas emergency rules are awaiting consultation elsewhere. As a matter of process we consider it prudent to discuss all matters pertaining to emergency at an industry specific forum. CSL also seek consideration on the situation regarding trading activity during stages 2 and 3 of a GDE.

The interactions of the Emergency Cash out arrangements with other parts of the market are not easy to understand. The industry has examined these issues for some time and failed to provide a solution that furthers the relevant objectives. Furthermore, Transco NTS has sought urgent status to provide sufficient time for the industry to put in place appropriate arrangements for the coming winter. CSL believes that current forward prices for winter '05 provide sufficient incentives on system participants to make appropriate arrangements without further market intervention.

CSL asks that the following points be taken into consideration in the FMR for **UNC00042**.

- CSL is mildly supportive of the intent of UNC0042 from the perspective of attracting price sensitive gas to Great Britain was maintaining some of the advantages afforded by single cash out following a failure of the market.
- The risk of Transco setting a very high SMPb against a small volume of gas is mitigated through this proposal. Whilst recognising a small volume trigger may be addressed through amending the 'normal' cash out rules, such changes would have a far greater impact on shippers positions for this winter than amendments to the emergency rules.

CSL asks that the following points be taken into consideration in the FMR for **UNC00044**.

- CSL offers qualified support to UNC00044 but overall the relevant objectives would be furthered through consideration of each part of the emergency arrangements in conjunction. It is possible that a start date into the winter will allow this.
- UNC00044 should be considered in relation to the incentives which could be created upon other parts of the system. CSL believes that these two parts of the modification would be better considered separately so that the weighting of the separate benefits and drawbacks can be considered separately. A weaker and less clear change to the UNC should not be able to gain implementation on the back of the balance of benefits provided by a stronger and clearer change. CSL urges the final modification report to be split into separate modifications for separate consideration.
- Setting the SMP sell price to SAP should, all other things being equal, encourage shippers to overflow against their portfolio position. CSL maintains the view that the market is capable of fulfilling this function more efficiently under the existing mechanisms.
- CSL consider an advantage of neutral cash out is that it allows the decision by Transco NTS to invoke an emergency to be free from other influences. If this proposal is implemented then it will become very difficult for Transco NTS to verify to the Authorities that every action was taken and the opportunity for the marginal therm to be delivered duly given. By imposing SMP buy on all short shippers once the emergency is called Transco NTS will have to justify that the marginal cash out price was economically and efficiently set e.g. Is it the last LNG therm or the realisation that all remaining demand is firm and indifferent to further price escalation? This modification will introduce a new ability for Transco to manage demand in an economic and efficient manner without consideration for how this ability would be wielded. CSL believes that it is unwise to introduce such a mechanism without also introducing a strong framework for controlling the trigger conditions for when it would be used and the process which would be applied.
- There may also be some complex interactions between Transco's incentives which the short consultation period has not afforded sufficient time to analyse.
- CSL believes this aspect of the proposal seeks to incentivise interruptible load (Interruptible Supply Points) from the system prior to an emergency being declared – this is achieved through 'compensatory' payments being likely to be far lower than the worth of the marginal therm on such a day – thus imposing an opportunity cost on those sites and their shippers. CSL is therefore minded to accept that the 30 day average SAP represents a level of compensation which would incentivise sites to self interrupt. CSL does not fully understand the price payable to shippers from firm loads and the effect on the shipper balance following such an interruption.

CSL considers the key to the emergency cash out mechanism is attracting price sensitive load within the European Internal Gas Market and it may now be time to consider whether using a frozen cash out mechanism provides the dynamic qualities associated with a protracted GDE. None of the proposed modifications will fully address this issue.

Please contact me if you require additional information

Yours sincerely

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