

Mr. Julian Majdanski
Joint Office of Gas Transporters
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22nd August 2005

Dear Julian,

Modification 0042 - Revision of the Emergency Cashout Price
Modification 0044 - Revised Emergency Cashout and Curtailment Arrangements

Total Gas and Power Limited (TGP) welcome the opportunity to submit the following comments in respect of urgent modification proposals 42 and 44.

TGP understand Transco's desire to modify the cashout regime to encourage additional demand-side response and thereby limit the duration and extent of a National Gas Supply Emergency (NGSE). However, we remain of the view that unless customer concerns regarding participation in demand-side response are properly addressed then measures of this type alone may simply act as penalties and fail to deliver the response needed. Hence, our active involvement alongside Transco and customers within the Ofgem lead Demand Side Working Group to identify practical measures which address customer concerns, are understood by users and customers and may reasonably be implemented for this winter.

In addition, TGP consider it vitally important that when emergency arrangements have been initiated that all system users clearly understand their roles and the financial implications of their actions in order to effect physical flows that minimise the severity of a NGSE. It is therefore disappointing to observe so many urgent mods that relate to this matter so close to the onset of the winter period. It seems apparent that with better planning these proposals could and should have followed the normal industry processes and thus provide all parties the opportunity to fully comprehend the implications and contract for their winter arrangements accordingly. TGP are therefore concerned that the proposal to modify the single cashout price structure and the proposed treatment of Transco initiated interruption during these periods may lead to confusion, thus jeopardising the benefits that simple, transparent and well understood rules are likely to deliver.

The governance process for proposal 44 has provided little time and opportunity for users and customers to fully participate in discussions regarding its implications, with at least one meeting called late in the day immediately preceding the day of the meeting. As an observation it is not clear whether, extending further the ECQ methodology to encompass firm DM load, this increases the commercial impact upon I&C Shippers relative to domestic Shippers. Whilst the proposal to include a disputes resolution process within the UNC and Transco's production of an ECQ methodology may alleviate some of the process concerns, it is disappointing that Transco have not sought to include this methodology within the UNC and provide associated legal text. Notwithstanding our concerns regarding the process, its inclusion would have provided users with the confidence that each transporter would apply a common methodology to ECQ volumes during a NGSE. Without the inclusion of the methodology within the UNC it is all too easy to envisage confusion on the part of users and an expensive and inefficient post NGSE disputes resolution process.



TGP are also concerned regarding the proposal to apply, in Mod 44, SMP Buy prices to negative imbalances during emergency periods, particularly when small volumes have been used to set this price and/or the emergency has evolved rapidly. The application of SMP Buy prices in these situations we believe is likely to be penal and unlikely to reflect a typical market value for the gas. Should either of these events transpire we consider, as suggested in proposal 42, the application of the daily SAP immediately preceding the commencement of the emergency represents a pragmatic compromise between the need to appropriately incentivise users to balance and to ensure that the cashout price is not penal. This is likely to be the case since one would expect this SAP to incorporate the events/information leading up to the emergency and by definition be less likely to be skewed by the acceptance of small volumes at extreme prices.

For the reasons outline above, TGP therefore support the implementation of proposal 42 and not 44. We consider the ECQ methodology would benefit from further discussion particularly the development of an agreed transporter methodology that provides users and customers with reasonable opportunity to participate in discussions and adjust their contractual arrangements accordingly.

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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