

22nd August 2005

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Dear Julian

Response to Urgent Modification Proposal 044

044 – Revised Emergency Cash-out & Curtailment Arrangements

Following on from modification proposal 021, NGNs view is that modification proposal 044, whilst introducing some improved commercial elements to the emergency cash out process, does not temper this approach with a pragmatic commercial view as to implications of fully implementing all aspects of this proposal across the supply chain, outside of the specific elements addressed within the Uniform Network Code.

NGN do believe there is merit in adopting a SMP approach to cash out in such scenarios. The 'polluter pays' concept is a theme reflecting in many UNC areas and if adopted appropriately should be enough of a commercial driver to lessen the need for Firm and Interruptibles curtailment.

NGN do however have concerns surrounding other aspects within this proposal. NGN is unconvinced that that the true impact of introducing the full ECQ trade aspect across all potential loads has been fully contemplated. The speed at which the proposal was driven, post Ofgems Modification proposal 021 has resulted in a detailed proposal which has sought to address a number of the primary points raised in that letter. The drive to implement this proposal ahead of winter 2005/6, has however left a number of issues within the proposal unsubstantiated.

- (i) Appropriateness of Interruption Manager for calculation of cash out. Our understanding is that IM is calculated in volumes, whereas the requirements for the calculation are in energy.
- (ii) NGN have concerns about the impact of the potential number of disputes driven by the adoption of this proposal in its current form. The unknown materiality of such cash out impacts, makes it extremely difficult to gauge what levels maybe encountered. What is less in dispute is that the lodging of appeals, there due consideration and potential unwinding of charges based on such appeals will provide for uncertainty in terms of Users financial positions and potentially in terms of transportation revenue for transporters. Whilst this is an energy related financial consideration, the practicalities are that transportation invoices may be similarly 'squeezed' if a User faces considerable charges by way of this process, which of course will need paying even if Users are able to appeal.

NGN fully support the stance by which Users are appropriately incentivised to remain in balance, and believe a proposal centred primarily around a move to SMP would have been more appropriate. Whilst recognising the need for a potential implementation date which means the industry can work to a revised commercial regime from 1st October 2005 onwards, NGN must re state as it has in its view on a number of recent urgent proposals, that the absence of a reflective dialogue between all transporters and Users within a sensible timeframe, has led, and runs the risk of continuing to lead to proposals which have not been fully developed. As a consequence therefore the outstanding issues referred to above remain unclear in our view and as such NGN is unable to support this proposal.

Yours sincerely

Robert Cameron-Higgs
Network Code Manager