

Representation For 0050 **"Storage Monitor Adjustment"**

Date of Communication: 10/10/2005

External Contact: John Costa (Edf Energy Plc)

Slant: Against

Strictly Confidential:

Submitted By Web Submitted
Abstract

EDF Energy Response to Modification 0050

'Storage Monitor Adjustment'

Date: 10th October 2005

Dear Julian,

Thank you for giving EDF Energy the opportunity to respond to Network Code Modification Proposal Modification 0050 'Storage Monitor Adjustment'. EDF Energy does not support this modification for the reasons stated below.

Firstly, we do not believe that Transco needs the right to be able to increase monitors to minimise the risk of a Network Gas Supply Emergency (NGSE) as Transco states in its modification report. It has not been proven that interrupting gas in store will help resolve a NGSE. Indeed, it is more likely that a NGSE will be instigated if Transco raises certain storage monitor levels to a level where they are more likely to be breached thereby curtailing gas in store and precipitating a Gas Supply Emergency.

The conditions proposed under which monitor levels can be changed means Transco can arbitrarily change minimum stock levels without industry consultation. It is also not clear from Transco's modification report under exactly what conditions they can be allowed to revise monitor levels. It will therefore become increasingly difficult and confusing for shippers to follow Transco's signals in periods of high demand. This also means that Transco can interfere in the market by centrally controlling storage stocks on behalf of shippers instead of relying on the market to resolve gas supply deficits or constraints. This type of action on behalf of the system operator will lead to inefficient and artificial market signals.

Transco is cash neutral in its activity as NTS SO but we believe that Transco should have a duty as National Grid does in electricity in ensuring that it bears some of the cost of

maintaining system security. It is not right that the Transporter can change market rules which have existed since they were introduced in 1996 under the pretence of system security. To do so undermines the fully liberalised and competitive market in which gas Shippers operate and actually serves to decrease levels of system security through the extra complexity these 'centrally controlled' arrangements will bring during tight supply periods.

Transco has spent much time calculating minimum stock levels which will protect domestic customers through the orderly run down of the system in an emergency. We believe that this is in line with their safety case but we can't see how increasing monitor levels is necessary in any event as Transco already contracts for system security through their Operations Margins gas arrangements which is the most efficient way to guarantee system security over tight supply days.

It is important to note that Shippers procure storage under contract 1 or more year's ahead and therefore have certain rights and access to storage facilities through these contracts. We do not believe that it can be efficient for this modification to be implemented ahead of this winter or the next as it will distort the competitive basis under which Shippers operate in the market place. The implementation of this modification will significantly undermine the value of Shippers' storage bookings whilst increase shippers risk ahead of the winter period. This can not be in the best interest of maintaining system security.

EDF Energy contracts for storage as a reasonable and prudent shipper and supplier every year to balance our NDM exposure from large changes in demand due to changes in weather. The implementation of this modification would significantly increase our financial exposure and risk positions for this winter, which might ultimately have a negative impact on customer charges.

We also fail to understand why Transco is raising these last minute urgent modifications that affect emergency arrangements this winter when they had plenty of notice that these types of changes to the UNC could be needed. Transco claim that this modification is urgent and necessary but we note that they changed their Safety Case last December with no industry consultation so we fail to understand why they had not spotted this requirement earlier. Modification 0044 'Revised Emergency Cash-out & Curtailment Arrangements' is another example of where Transco has raised a proposal at the last moment which undermines shippers contracts ahead of winter. If dwindling supplies are quoted as a reason then again we fail to understand why Transco didn't spot the decline of the UK gas supplies earlier than 2005 as a reasonable and prudent operator when figures presented in their Winter Outlook Reports in 2001 show that the UK would be a net importer in 2005/06.

For these reasons we cannot see how this modification can be sensibly implemented as it does not meet Transco's relevant objectives in maintaining a safe and efficient pipeline system. Indeed, we have shown that this modification will distort market competition and possibly precipitate an emergency situation if the adjustment of stock levels is not used correctly. We believe that Transco's obligations for maintaining system security and minimising gas supply and transportation failures should be reviewed with the industry ahead of next winter so that a sensible and prudent solution that system Users can agree should be implemented. We look forward to working with Transco to achieve this.

We hope our comments have been useful but please contact me if you need further clarification.

Regards

John Costa

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