

## **Representation For. 0061**

"Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered"  
Version 1.0

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**External Contact:** (R W E Npower Plc)  
**Slant:** Against  
**Strictly Confidential:** No

### **Abstract**

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### **Urgent Modification Proposal 0061: Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered**

Dear Julian

Thank you for inviting us to comment on this urgent modification proposal.

RWE npower does not support implementation of urgent modification proposal 0061.

This is a wide-ranging modification proposal that seeks to introduce a number of fundamental regime changes as we move into the winter period. It contains a number of elements:

**Introduction of Gas Balancing Alert (GBA):** We agree with introducing the GBA and have offered our conditional support for urgent modification proposal 0062: Introduction of a Gas Balancing Alert. The Winter Operations Report identified the potential requirement for increased demand-side response this winter and the GBA is consistent with that and subsequent discussions at the Demand Side Working Group (DSWG). It is inappropriate to justify this wider proposal on the fact that the topics were discussed at DSWG.

**Eligible Balancing Actions utilising OTC contracts:** The potential additional gas available OTC has never been quantified. Without this, it is unclear what this change is adding as non-OCM shippers can still sell gas to shippers at the beach or NBP without this modification. In addition, implementing this will introduce a number of inefficiencies into the market. These include less transparency in the trades themselves, giving the selling counter-party knowledge in advance of

the rest of the market and delay production of SAP/SMP buy for the rest of the market. There is also potentially less certainty over whether gas is delivered, increased counterparty risk and complexity of interest payment relating to different settlement periods.

Introduction of multiple day trades: Again the justification for this change is far from obvious. NG NTS argued at their recent Winter Outlook presentation that their demand forecasts were only reliable for a maximum of two days out. It seems inconsistent that they should be able to buy gas for up to seven days in the future. This increased complexity may lead to unintended consequences for instance if NG NTS buy OTC gas for seven days but the OCM is suspended due to occurrence of an emergency within this seven days. How can the Effective Price then feed into cash-out if the OCM is suspended?

The proposed methodology is flawed and the formulation means that it will severely affect cash-out due to the multiplier effect of setting probabilities. Weighting protects NG NTS because assigning a probability allows them to sculpt the price based on the certainty of their demand forecast. This passes the risk onto shippers. Within the methodology there is no transparency over setting the probability and NG NTS has discretion over the level of cash-out for each day covered by the multiple day trade. This reduces the transparency over the trade setting SMP buy and is not reflective of actual utilisation of gas. It is unclear how, in practice, offers will be accepted. For instance, will the original price or the weighted price of a multiple-day offer be used. It is important that shippers understand this if they wish to re-price offers. From the drafting, it is unclear how this modification fits in with the current NG NTS SO incentives and whether a change to their GT licence is required.

### **Meeting the Relevant Objectives:**

Relevant Objective 1.a) NG NTS claim it will facilitate co-operation between consumers and shippers that might provide further demand side response. However, consumers can already sell gas to shippers who can trade it on the OCM or use it to reduce their imbalance;

Relevant Objective 1.c) Will not reflect the value of all gas traded to meet residual balancing actions as it inflates the Trade Value of gas paid on day 1;

Relevant Objectives 2.a) We would welcome an explanation as to how this will improve incentives for suppliers to secure gas to meet the domestic security standard;

Relevant Objection 2.b) Urgent Modification proposal 0062 introduces the GBA without the additional components of this proposal; 4th Disadvantage of the Proposal - if the level of the OTC trades should be low because most shippers are active participants on the OCM it begs the question as to why this modification is necessary;

We agree that the introduction of the changes contemplated here should be considered as part of a wider review. It could be argued that demand-side contracts of this nature are analogous to Reserve in electricity so should be based on comparable principles. The proposal also introduces a limited form of forward contracting by the gas System Operator. While not necessarily against this in principle, it needs to be accompanied with greater transparency around the SO's activities.

We hope these views are helpful and would be happy to discuss matters further.

Yours sincerely

By Email So Unsigned

Charles Ruffell

Economic Regulation