

Julian Majdanski
UNC Modifications Panel Secretary
Joint Office of Gas Transporters (JOGT)
Ground Floor Red
51 Homer Road
Solihull
West Midlands B91 3QJ

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Dear Mr Majdanski

**Consultation on Uniform Network Code (UNC) modification proposals
0061 and 0062**

Introduction

energywatch welcomes the opportunity to comment on these urgent modification proposals.

Modification 0061

UNC modification 0061 '*Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered*' allows National Grid to supplement its current residual balancing role in the wholesale gas market through the use of eligible balancing actions (Over-the-Counter (OTC) trades) contracted with non-trading participants outside of the On-The-Day Commodity Market (OCM). These would be actions lasting more than one day and only be used at times of system stress up to declaration of a network gas supply emergency. Costs of eligible actions would be included in cash out prices.

energywatch believes National Grid should take the lead in securing a route to market for non-trading large gas users to allow them to provide a demand-side response in circumstances of system stress. We therefore welcome this initiative to seek balancing actions from such users. It is critical, given the information provided by National Grid in its recent Winter Outlook Report, highlighting the potential for tightness in gas supply this winter that such users are afforded the ability, out with their regular contracts with shippers, to contribute to relieving system

stress without the enforced physical and financial penalty of interruption.

The proposal allows demand-side response through eligible balancing actions to be incorporated into cash out prices. We believe that this has two advantages. First, there will be appropriate pricing signals to the market about the availability of gas and the requirements of the system which can be built into the costs of balancing. This should help ensure that efficient and economic actions are taken in the forward markets and in the balancing period by National Grid, keeping overall costs down for participants and ultimately to end consumers. Second, the very fact that additional balancing actions are available to National Grid should mitigate market risk and keep costs down.

energywatch understands that National Grid may require an additional option of 'within-day' balancing where it is anticipated that supply may be particularly tight. Whilst we are supportive of the availability of more flexible options to National Grid closer to real time, we would be concerned about whether many users would be able to respond in the relevant timescales. We do not, however, rule out this option as it may be possible for certain users to agree balancing actions for short notice periods. These users should not be denied a route to market.

energywatch considers it to be an important feature of any eligible balancing action mechanism that there is an appropriate level of transparency to allow all market participants to see the actions taken by National Grid. This should be implemented on a non-discriminatory basis to enhance efficient and economic balancing and to provide suitable signals to the market. We consider that National Grid can aid transparency, albeit after the event, by providing adequate explanation of its balancing actions through an Operational Forum.

We note National Grid's concerns about potential information asymmetry regarding pricing data and some issues regarding the timely availability of cash out prices. However, it may be possible to remedy this if, as we believe, the fundamentals behind proposal 0061 are developed into an enduring mechanism for the longer term. We do not believe that tightness of gas supply is a short-term issue, especially as the UK moves towards a position of being a net importer of gas. We agree with National Grid that it would be appropriate to review the operation of the eligible balancing action mechanism after winter 2005/06 to assess where difficulties arose and learn lessons for the future.

Modification 0062

UNC modification 0062 *'Introduction of a Gas Balancing Alert'* allows the issue of a new alert notice on National Grid's website on a day ahead basis to inform all interested parties where total gas demand for the following day is likely to be higher than available supplies, including stored gas.

energywatch believes that the use of the Gas Balancing Alert as a real time signal on National Grid's website of the need for a demand-side response is an appropriate mechanism for triggering any such response from users. In conjunction with the detailed operation of the mechanism as outlined in proposal 0061, we agree that proposal 0062 meets the relevant objectives of the gas transporter licence, in respect of improving efficient and economic operation of the pipeline system and provision of reasonable economic incentives to suppliers to secure domestic gas supplies.

Conclusions

As is clear from our comments above, energywatch supports both these urgent modifications. We believe that the relevant objectives of the gas transporter licence are achieved by allowing users to respond to National Grid's requirements for additional gas to meet demand in an efficient and economic manner and that the eligible balancing actions mechanism should help to enhance efficient price discovery keeping costs to end consumers lower. The operation of the mechanism after winter 2005/06 should be reviewed to learn lessons and we believe that National Grid should cooperate fully to develop an appropriate long-term mechanism.

If you do wish to discuss any of the points in this response in more detail please do not hesitate to contact me on 0191 221 2072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs