

TOTAL GAS & POWER LIMITED

Mr. Julian Majdanski
Joint Office of Gas Transporters
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West Midlands
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21st November 2005

Dear Julian,

Modification Proposal 0061 - Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered, & Modification Proposal 0062 – Introduction of a Gas Balancing Alert

Total Gas & Power Limited (TGP) do not support the implementation of urgent modification proposal 61 and provide qualified support to the implementation of urgent modification proposal 62 for the following reasons:

- We recognise the introduction of a Gas Balancing Alert (GBA) may encourage customers to work with their shippers to provide demand side response particularly from those customers who wish to assist only during periods when interruption is needed to prevent the likely occurrence of a National Gas Supply Emergency (NGSE). The relatively simple methodology proposed, for triggering a GBA, should also facilitate confidence and overcome any perceived information asymmetry amongst consumers in relation to the likely requirement for demand side response during these periods. Hence we recognise the mutual benefits of being able to agree amendments to the supply contracts with our customers and effectively use the notification of a GBA as a trigger for demand response. However we do have concerns with the proposed approach in both 61 and 62:
 - Little time remains, before the onset of full winter conditions, to agree the contractual amendments necessary to give full effect to the above.
 - Given the importance of these arrangements to the continued safe and secure operation of the NTS, TGP consider that default demand response provisions should be in place. As referred to in our response to mod 21, we believe that the commercial realities of individual suppliers attempting to insist upon demand side response provisions whilst maintaining relative industry competitiveness should not be ignored. Hence in our view a GBA supplier lead approach is likely to be most effective when it also forms part of a common license obligation upon suppliers to agree demand response arrangements. This requirement may also encourage suppliers and end-users to enter into other forms of commercial demand response arrangements.
 - Despite the advantages associated with the relatively simple approach proposed for triggering the notification of a GBA, we note the base-case data from the Winter Operations Report (WOR) is relatively static and that a NGSE may arise from circumstances that are not captured by the methodology. TGP therefore consider that the application of limited discretion by NGG, such that a GBA may be issued within or before the gas day to ensure system conditions do not deteriorate to the extent that a NGSE occurs, to be appropriate. We would expect this discretion to only be exercised in situations where the



information underpinning their decision is credible and verifiable, for example a major loss or expected reduction in capability of the offshore infrastructure effectively negating the supply assumptions within the WOR. However if a GBA were to be issued within day and an emergency subsequently occurred we consider that different commercial arrangements ought to apply.

- We recognise that in part modification proposal 61 attempts to provide alternative routes to market by enabling multi-day offers to be posted and be taken by trading parties from the OCM or OTC by NGG. TGP have strong reservations about the use of the OTC market despite it only being used during periods when a GBA is issued. We understand these offers will be treated as being equivalent to title trades and that a significant delay may exist between the acceptance of such offers and publication of its impact on cashout price. This lack of real-time cashout price information is a serious loss of transparency, may lead to significant information asymmetries between trading parties regarding expected cashout price movements during periods of system stress and ultimately may have a detrimental impact on market price formation/competition.
- These concerns are all the more acute given the suggested treatment of multi day offers for deriving cashout prices within proposal 61. The 'probability of requirement' within the cashout price calculation is highly arbitrary and the proposed methodology artificially inflates the price and volume delivered for balancing purposes. This treatment does not appear to be cost reflective and is unlikely, in our view, to facilitate economic or efficient operation of the system.
- It is also unclear how the current SO imbalance price incentive will operate alongside the proposed treatment of multi-day offers. TGP agree the ability to provide multi-day offers on the OCM provides advantages in potentially offering additional demand response, however, we consider the treatment of multi-day offers within cash-out price would greatly benefit from further discussion within the industry. This would ensure that the interactions between Transco's price incentive and the proposed methodology are better understood by all Network Code parties and hence the implications of the effect of this aspect of the proposal are also well understood.

In summary TGP would prefer the introduction and notification of a GBA to be in addition to a common license obligation upon suppliers to agree demand response arrangements, to ensure that default provisions exist to ensure the continued safe and secure operation of the NTS. We recognise the advantages of providing NGG with limited discretion to issue a GBA notification prior to or during a gas day, provided this discretion is employed on the basis of credible and verifiable information. We therefore provide qualified support to the implementation of proposal 62. TGP, however, consider the potential loss of real-time cashout price information and transparency associated with modification proposal 61 to be a major disadvantage and potentially detrimental to efficient market operation. These concerns are exacerbated by the highly arbitrary pricing aspects of the proposal. Hence we recommend this proposal be rejected with further urgent consideration of how multi-day OCM offers may be treated within cashput prices and how this methodology would interact with NGGs price incentive.

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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