

Modification Panel Secretary  
Joint Office of Gas Transporters  
Ground Floor Red  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ

22 November 2005

Dear Julian

**Re: UNC Modification Proposal 0067**

EDF Trading (“EDFT”) wishes to submit the following in response to the above modification proposal.

EDFT supports the implementation of this proposal and believes it will better facilitate the achievement of the relevant objectives, specified in Standard Special Condition A11.1 & 2 of the GT Licence, in particular;

- a) *“the efficient and economic operation of the pipe-line system to which this licence relates;”*

The current arrangements undoubtedly encourage storage users to withdraw gas prematurely, which in turn may cause an actual NGSE. This proposal would remove this incongruity and reduce the need for the System Operator to take balancing actions.

- d) *“...securing of effective competition:  
i) between relevant shippers;”*

The current arrangements discriminate against shippers which elect to hold gas in store as a source of flexibility, as opposed to those which have access to competing forms of flexibility. The “locking in” of gas in store through effective command and control, undermines the value of the gas in store and by association investment in UK storage facilities. It is absurd and indefensible that in a competitive market the value of a particular form of contract can be undermined by the actions of a third party. This proposal recognises, to some degree, the value of the gas held in store, and better aligns the commercial incentives on all users to access flexible gas supplies from whichever source they wish to contract. In particular, the proposal is consistent with the approach taken in Section Q of the UNC, which permits a User to make a claim against NG NTS if it believes it has suffered a financial loss in respect of any gas delivered to the System during a GDE.

### **General comments:**

We think it might be necessary to debate further the application of storage monitors. Although, NG have published the methodology for determining the monitor level, the debate around their relevance and the basis upon which they are set e.g. the validity of 1 in 50 etc....has not been aired. In addition, further subjectivity has been introduced through the implementation of Modification Proposal 0050.

We continue to believe that the implementation of Mod 0050 was ill-advised, as we are certain that the Safety Case does not require Transco to arbitrarily impose greater restrictions on storage utilisation on an ongoing basis and to rely on command and control methods when market solutions are available and sufficient. Furthermore, and as a direct result of Mod 0050, the market will continually be under the threat of Transco undermining its operation and as a result, it will behave in a cautious manner. Storage Users knowing that their commercial investments may be “written off” by the imposition of artificial constraints are more likely to withdraw gas from store prematurely i.e. earlier during the winter period. We firmly believe that without suitable compensation, the new UNC provisions established through Mod 0050 will prove to be counterproductive and completely at odds with the relevant objectives it claimed to facilitate.

EDFT notes that in its decisions relating to the implementation of Modification Proposal 0050 and the rejection of Modification Proposal 0035, Ofgem recognises two significant flaws with the proposals. Firstly, that NG NTS has no commercial incentives to manage costs, and secondly, that denying Users any form of compensation will necessarily encourage behaviour which is detrimental to system security.

EDFT welcomes these observations and recommends, for the reasons detailed in Ofgem’s decision letters, that this Modification Proposal is approved. The implementation of this proposal will start addressing the problems associated with the flawed regime currently in operation although we acknowledge that a fuller review of the emergency arrangements needs to be carried out the earliest opportunity. In particular, focus needs to be placed on the introduction of commercial incentives for NG NTS to minimise costs associated with managing system security.

We suggest that the recent flood of modifications is a direct result of NG NTS’ desire to overwhelm the industry into making quick, and in some cases ill-informed decisions, without having the opportunity to question NG NTS’ pivotal role. EDFT finds it difficult to accept that all the commercial risks are being targeted at specific Users, whilst the entity which has a central role in managing operations and the escalation of costs is commercially, risk-free. This ensures not only discrimination between Users, but discrimination between Users and the Transporter as costs are inappropriately targeted.

**Specific comments:**

**The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

EDFT believes that the effect of this proposal would be to enhance security of supply. Firstly, it addresses the anomaly in the current rules which actively encourage storage users to withdraw gas from storage prematurely. Secondly, because the value of storage is not unreasonably undermined, it will ensure longer term investments in storage facilities are forthcoming.

**The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

**a) implications for operation of the System:**

The System Operator may be required to take further actions, however, the likelihood of this occurring is reduced as it is less likely that a potential, or actual NGSE will occur (for reasons stated above).

**The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

EDFT does not expect any System implications

**The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

EDFT believes that the proposal better divides risks across Users as described previously. In fact, it removes the current prevalence of undue discrimination between Users. We wish to reiterate, however, that the lack of commercial incentives placed on NG NTS needs to be addressed as soon as possible, as this will continue to exacerbate overall costs to the industry.

**The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

EDFT believes that the proposal further enhances overall security of supply in both the short and longer terms.

We trust you find our comments useful. Do not hesitate to contact us for further questions,

Yours sincerely,

Jonas Törnquist

Head of Transmission and Regulation