

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

19<sup>th</sup> December, 2005

Dear Julian

**Re: UNC Modification Proposal 0071**

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

EDFT does not support the implementation of this proposal as we believe it would not 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;"*

As stated in Ofgem's decision letter for Modification Proposal 0052, without adequate compensation there is a perverse incentive on Users to prematurely withdraw gas from store which provides an increase in the risk of an emergency occurring. This proposal does not provide adequate compensation and as a result will place the market in greater risk of an emergency being called.

We strongly disagree with the Proposer's comments in relation to the fulfillment of this relevant objective as the Proposer has omitted to comment on the behaviour of Users prior to an emergency. In our opinion, any change to the UNC should limit the likelihood of an emergency occurring rather than, arguably, encouraging particular behaviours once the emergency has been called. The Proposer suggests that this proposal would maintain the market activity of the Residual Balancer at efficient levels; this is wholly inaccurate as it is likely that the effect of this Proposal would be to exacerbate balancing actions to counter premature storage withdrawals.

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

The proposal does not provide the storage user with a market value for the curtailed gas held in store. The use of a SAP differential is of little relevance as the purpose of holding gas in store is to protect against imbalances during periods of high cash-out prices, noting that cash-out is determined by reference to the SMP prices.

SAP is an indicative price which by its very nature reflects trades performed over the duration of the gas day. The real value of the gas at the time of the enforced curtailment is the prevailing trading price, or the SMPbuy price. EDFT believes that the application of SAP discriminates against storage Users and only a SMP based scheme will align the commercial incentives on all users accessing flexible gas supplies from whichever source they wish to contract.

**General comments:**

The implementation of Modification Proposal 0052 provided a suitable basis for determining the level of compensation necessary to counter pre-existing discrimination and the perverse incentives to withdraw gas. In addition, Modification 0052 was consistent with the approach adopted for the demand-side as enshrined in Modification Proposal 0044. EDFT sees little justification for moving away from protecting against

imbalances unless the compensation payment reflects imbalance exposure i.e. it is SMPbuy derived. The deferral of payments through a compensation based scheme i.e. not generated through adjustments to a User's imbalance may introduce further risks to the community. For instance, the risk of User default will increase and/or the aggregate level of credit cover will need to increase. This will generate further costs which ultimately will be borne by consumers.

## **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 undermine security of supply. Firstly, it will actively encourage storage users to withdraw gas from storage prematurely and secondly, because the value of storage is potentially unreasonably undermined, it will deter the future investments in storage facilities.

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

#### **a) Implications for operation of the System:**

The System Operator is likely to have to take increased balancing actions immediately prior to an emergency occurring to counteract the perverse effects this Modification Proposal would have on storage Users withdrawal activities.

### **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 would not expect there to be 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 this proposal discriminates against Storage Users for reasons already explained. We believe that it may lead to an increased risk of User default and potentially increase credit related costs across the industry as individual imbalances are not correctly adjusted. 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 undermines overall security of supply in both the short and longer terms.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

Jonas Tornquist  
Head of Transmission and Regulation