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Dear Julian,

Re: Modification Proposal 0086: “Introduction of Gas Demand Management Reserve Arrangements”

EDF Energy welcomes this opportunity to comment on the implementation of this Modification Proposal 0086. EDF Energy supports initiatives to increase the level of potential Demand Side Response (DSR) in the market to resolve periods of tight system balances as in this winter to ensure customer’s interests are protected and we therefore offer qualified support for this modification.

It is clear from analysis in NG’s Winter Outlook Report that a significant amount of DSR from DM customers was not seen last winter despite NGG estimating that these would represent the majority of peak day response. This proposal sets out a framework that can provide a route to market for many of these DM customers who for one reason or another have not been able to provide their gas back to NG or their shipper. However, we note that there are still many areas of this modification that are unclear or underdeveloped having only been properly discussed once at the June Transmission workstream since its inception, making it difficult to assess whether it will provide additional benefits at economical cost this winter. We agree that resolving this issue early this year is important but it is also equally important to dedicate sufficient time and attention so that all the positive and negative consequences are fully analysed and understood. It is hoped that the Urgent route granted and taken does not become a hindrance to a fully developed and understood modification.

Ultimately, we believe the success of this modification will rest on the resolution of the following two issues:

- whether a route to market for a subset of consumers to provide demand-side response optionality with the costs socialised across all shippers (and ultimately consumers) via the SO is economic and efficient; and

- whether the demand-side response targeted via this modification will make a physical system difference on the day because these trades are likely to be classed as Title NBP trades.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

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

We believe that implementation of this proposal has the potential to further this objective if the costs incurred through the availability payment fee as an insurance premium are economically used in this and subsequent winters. These costs could actually prove to be insignificant if they are used efficiently to avoid even higher balancing costs through higher gas and cashout prices in an emergency for example. There is a question though whether having this premium feed into cashout prices every day of the year will actually be economic and efficient when the product may only be called upon one day in the year. However, the weighted profiling of the availability payment into cashout prices across the year may resolve this issue.

There is also a question of how much DSR volume and at what price National Grid (NG) will have to tender for given that it largely depends on a view of how tight the system will be each year. We believe that incentives on NG will have to be structured such that NG undertakes efficient and economic tenders but we note that this subject has hardly been touched upon in the modification's development.

Given some of the costs involved both in terms of implementation costs for shippers/ consumers, and in terms of costs avoided on a day when it is used, we believe that Ofgem should conduct an Impact Assessment to fully understand whether it is good value for the industry as a whole.

- (b) *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*
- (c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

We generally believe that this proposal will provide NG with an extra balancing tool with which to discharge its residual balancer role and could ultimately avoid entering a Gas Balancing Alert this winter or worse, a potential Gas Deficit Emergency.

(d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*

(i) *between relevant shippers;*

The ability for shippers to contract for and supply DSR to NG will ultimately depend on existing portfolios and the flexibility of current structured supply contracts. However, this proposal will provide system prices to signal DSR costs ahead of time whilst providing a route to market for different types of consumers via their shipper. For example, smaller I&C consumers, who find it difficult to provide their gas to market and ultimately self interrupt during periods of high prices, can now participate in DSR via an aggregation service that a shipper may want to provide.

(ii) *between relevant suppliers; and/or*

(iii) *between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

(e) *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and*

We believe this modification has the potential to create an extra level of system security, albeit at a price, which should ensure that shippers are economically incentivised to supply gas during periods of tight system balances to protect domestic consumers.

(f) *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

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

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

a) implications for operation of the System:

We believe this modification will only impact NG NTS as they are responsible for system balancing. We also believe this proposal will help improve the economic signals for guaranteeing Security of Supply and that it fits well with NG's role as residual system Balancer. We note that two years ago NG proposed modifications 0584 and 05851 which would have gone further than this current proposal and allowed NG to contract directly with demand-side response. These proposals came at a time when NG appeared to be stressing its residual balancing role. If NG do not agree to the implementation of this modification it will be helpful for us to fully understand why NG has changed its position in this matter.

b) development and capital cost and operating cost implications:

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

d) analysis of the consequences (if any) this proposal would have on price regulation:

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

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

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

There will be some implementation costs for both shippers and suppliers in order for all parties to have the necessary contracts, systems and processes to be able to make use of this mechanism. There may be some contractual risk involved

¹ Mod 0584 – “Provision of Contestable Transmission Support Services” & mod 0585 “Provision of Contestable System Reserve Services”

with Shippers participating in the tenders by not having the necessary physical contracts in place to back up their offers to NG. It is not clear whether shippers will need to demonstrate a physical turn down at a specific meter point in order to participate in this mechanism and it would be useful if Ofgem could provide a view on this considering some of the trades will be on the non-physical "Title" market. However, it is clear that the Title NBP market does have a role to play in balancing the market on the day and thus should be made available as part of this proposal.

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

Consumers will need to demonstrate that they have the operational procedures and systems for participating in any tenders which NG take, else this may lead to even greater system risk and commercial costs in relying on gas response that won't be there on the day.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

The proposal will facilitate additional demand side response by providing a commercial route to market for quantities of gas which would otherwise either not be available for turning down, or turning down at an uneconomic cost through self-interruption.

Will act as an extra mechanism under NG's balancing tool belt to use on difficult balance days in winter, and possibly some summer periods going forward.

Acts as an extra buffer before a GBA is called or it could even be used in conjunction with a GBA to provide a transparent trigger to the market.

Creates competition amongst shippers and suppliers for these types of flexibility products which consumers can provide, whilst also financially compensating participating consumers.

Has the potential to create price signals for investment in fuel switching and contracting for alternative fuels in order for large offtakes to substitute their fuel intake.

Provides upfront incentives for shippers to balance ahead of the day however, through the feeding in of the availability payment into cashout prices ahead of the day.

Disadvantages:

The volume of gas tendered for and the prices taken could ultimately be uneconomic and increase system balancing costs, as it is difficult to determine the right level to contract for.

The availability payment costs and exercise prices may not feed into real prices in a timely manner in order for shippers to economically and efficiently maintain a balance

The volume of DSR taken by NG may not be available on the day due to other mitigating circumstances such as plant outage thereby providing a false sense of security.

The DSR contracted for may cause consumers to keep on taking gas during periods of tight system balances and high system prices for fear that they may be called on at any time, when they might already have voluntarily turned down.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

This modification would enable NG NTS to further secure its obligations under its safety case as an alternative to other forms for system flexibility used to safeguard the system such as curtailing gas from storage, which is seen to be discriminatory to storage users.

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Programme for works required as a consequence of implementing the Modification Proposal

Proposed implementation timetable (including timetable for any necessary information systems changes)

As stated above, the implementation timetable is very challenging as this modification has been raised as urgent, and given the lack of development may cause the proposal to take longer to implement than if it had been properly developed.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

Further Comments

Yours faithfully

John Costa
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EDF Energy