



Julian Majdanski
Modification Panel Secretary
Network Code Development
31 Homer Road
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19th June 2006

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Dear Julian,

The following is the Scottish Power response to:

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

Non-Support

Thank you for allowing us to respond to this modification. **Scottish Power do not support this modification proposal.**

Demand-Side Response

We appreciate that Gaz De France have been looking to come up with a modification to encourage demand side response and offer encouragement for market participants to shed load in the winter. We also agree that more demand side response could be required in the coming winter, particularly from the large industrials sector.

However, we are concerned that this is a commercial scheme which has been proposed minus the most relevant detail. The short timescales and the granting of urgency has adds to this concern. We would like to see an Impact Assessment on this modification.

Basis of Non-Support

Last year we saw demand-side response and a regime appearing to work with one balancing alert and no emergency. This modification may not change existing arrangements but it does add additional complexity.

By sitting alongside existing arrangements (but on a different commercial basis) we are concerned about the interaction of the demand side response arrangements. We are also concerned that there could be a negative impact on relationships between shippers, customers and National Grid as a result.

National Grid is a residual balancer of the system and Shippers are encouraged to balance their own portfolio and in so doing ensure that the system is also close to balance.

Tendering connected sites into the proposed arrangements would restrict the flexibility within shipper's portfolios and reduce their ability to effectively balance their portfolio and respond to the market circumstances.

We are concerned that high marginal process may be set, but at an artificially high level with National Grid effectively "cornering" the market for flexibility (but not necessarily using it) hence having a negative impact on system efficiency. We believe that an efficient market should be compatible with running a secure system, and flexible arrangements for market participants optimise this.

Finally, we have serious doubts whether this scheme, lacking in detail, but adding to overall system complexity, could be put in place for this winter.

Furthering the Relevant Objectives

This modification could encourage demand-side response and send price signals to the industry for back-up fuel investments. However, it sits alongside other arrangements and a market which, when it works, does these things.

Also, we have no confidence that implementing this modification will further the relevant objectives by improving the efficiency of the system. We do not have enough detail on how the scheme will work, how much it will cost, and what impact it will have on existing arrangements, which could have implications for security of supply.

We would prefer to engage in further dialogue concerning the stimulation of demand-side response with a more market-based approach, and see NGT providing clearer information and signals surrounding system security events including gas balancing alerts.

Contact

Should you have any queries on the views expressed please contact me on the telephone number as shown.

Yours sincerely,



Commercial & Regulation Manager (Gas)