

Mr. Julian Majdanski
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19th June 2006

Dear Julian,

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

Total Gas & Power Limited do not support the implementation of Modification Proposal 0086.

Our comments are as follows:

Total Gas & Power Limited (TGP) recognise the key role that demand side management has in managing the supply demand position particularly in tight winter supply conditions. Under our marketing brand name of Elf Business Energy we are actively seeking to market and agree innovative demand side response provisions with eligible customers. In addition we have recently proposed modification 0088 that seeks to extend the daily metered service and facilitate additional demand side response from both individual and aggregated sites.

Our concerns with modification proposal do not stem from the stated intent of facilitating additional demand side management, but from how it seeks to deliver them. Many aspects of the proposal remain unclear or are yet to be developed. As such it is difficult to evaluate whether it will in practice deliver additional physical demand response and how the delivery of such a product would be monitored and verified.

We are particularly concerned that key elements of the proposal have been left to NG's discretion. For example the process by which the tender will be conducted, the likely volumes to be contracted and the circumstances in which these contracts may be deployed; (i.e. the potential cost exposure and pricing impact). The costs projected by NG's analysis suggests that strong consideration ought to be given to conducting an impact assessment fully evaluating whether the costs of such an arrangement deliver appropriate value to the industry and how NG's incentives ought to be adjusted to ensure that potential costs are limited.

Furthermore, in the absence of these key elements being defined it is difficult to fully evaluate the contractual and operational impacts of implementing such an arrangement, or whether such an arrangement will be compatible with separate shipper-customer demand response mechanisms. Additionally we share the concerns expressed by other shippers regarding the extent to which NG operating such reserve arrangements may crowd out or undermine shippers' focus in offering demand side response.

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;*

The extent to which this proposal furthers the relevant objective is contingent upon whether the level and payment of a capacity/availability fee is considered to be appropriate and whether this delivers appropriate levels of response in excess of that already anticipated or conversely results in no additional response, leading to a general increase in cost levels for pre existing levels of demand response. Additionally it will depend upon whether applying a premium on SMP buy price every day is judged to be consistent with financially incentivising parties to respond appropriately to system conditions on the day. We suspect on the latter point it isn't and may lead to potentially significant unintended consequences.

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

TGP have already invested significantly in training relevant personnel and implementing necessary systems to facilitate the delivery of contracted demand response for the forthcoming winter. We note that very little time remains to identify the consequential operational and contractual impacts for implementing new arrangements. We anticipate, however, a separate NG demand reserve tender to result in shipper-offered demand response contracts becoming highly complex and potentially leading to such contracts becoming either unworkable or extremely difficult to agree. For example it is not clear how those customers who have agreed and participated in a tender via their supplier/shipper will be treated in the event that they change supplier.

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

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

We have identified the following advantages:

The proposal *may* facilitate additional demand side response, however, it is unclear whether this is in addition to response that was already likely to be offered and hence whether the payment of an availability fee represents good value for money to the industry.

We have identified the following disadvantages:

We anticipate significant contractual risk and operational complexity in offering demand side response contracts and jointly participating in the proposed tender. This may of itself undermine separate shipper-customer demand side management arrangements.

The availability and timeliness of cashout price signals generated as a result of these NG tender contracts may be diminished. This and the price inflator as a result of the availability fee may have a detrimental impact on overall balancing.

The costs to the industry of providing such demand reserve may be disproportionately large compared to the volumes that may be available.

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

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)

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

Further Comments

Yours sincerely

Sharif Islam
Energy Regulation Manager
Total Gas & Power Limited