

Mr. Julian Majdanski
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16 June 2006

Dear Julian,

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

energywatch wishes to comment on the implementation of this Modification Proposal 0086.

Our comments are as follows:

We consider that from a consumer viewpoint, in principle, it is critical to maintain security of supply and, therefore, there should be appropriate arrangements for coordinated, orderly and market-based demand side response when market conditions are tight and the System Operator requires assistance from users to balance the system and avoid the initiation of emergency arrangements on the gas network. Users who can respond must have a route to market in order to do so.

The largest daily metered (DM) users may be in a position to volunteer demand side response in those circumstances and we would prefer to see voluntary action in response to market signals rather than an involuntary disconnection (effectively self-disconnection) which has wider implications, which some have termed demand destruction. We also agree that an orderly response is preferable for those users who are not able to switch fuels easily and therefore have limited options in terms of any demand side response which they may willingly wish to provide.

As far as the modification proposal is concerned, it appears to set out a basis for the type of action which we would like to see. However, there seem to be few details at this stage about how the gas reserve tender arrangements would work in practice, whether there are sufficient incentives on the System Operator to meet its licence obligation on efficient and economic operation of the pipeline system in the circumstances which may give rise to use of the gas reserve tender and what those incentives may be, and about the potential implementation costs of the proposal and the underlying cost-benefit of this specific approach.

As a result, while we consider that the proposal is going in the right direction towards providing a further demand side response option and route to market, we need to see much more information before we can be fully supportive of its detailed intention.

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;*
- (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

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:

We have identified the following disadvantages:

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 faithfully

Name: Carole Pitkeathley
Organisation: energywatch