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Julian Majdanski
UNC Modifications Secretary
Joint Office of Gas Transporters
51 Homer Road
Solihull
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Dear Julian

Uniform Network Code Modification Proposal 0090 – Revised DN Interruption Arrangements

Introduction

Gaz de France ESS is a major supplier committed to bringing business energy excellence to the UK gas and electricity supply markets. Gaz de France ESS currently enjoys a 12% share of the Industrial & Commercial Gas supply market and is a leading supplier to the interruptible market segment.

Gaz de France ESS is focussed on providing customer service excellence to our target market of Industrial & Commercial gas and electricity users and has a range of innovative products and services designed to cater for both large and small consumers in these sectors.

Summary

Thank you for the opportunity to respond to the above modification proposal. We are unable to support this modification proposal in it's entirety but believe the proposal has some merits and drawbacks on balance and therefore we offer the following **comments**.

Relevant Objectives

Gaz de France ESS agrees with the concept of allowing transporters to determine the actual level of interruption required in their own network, this is favourable to the current user request regime. The current "vanilla" regime is not appropriate and does not offer user flexibility for consumers, nor is it reflective of the true value of interruption. To this extent we agree with the proposer that implementation of these proposals would better facilitate special licence conditions A11.1c "the efficient discharge of the licensee's obligations".

One major concern however is the effect on the emergency procedures, as a consequence of this change proposal a significant volume will be removed from stage 1 of an emergency, where interruptible consumers are taken off the system first. This will certainly increase the likelihood and speed at which stage 2 and stage 3 “firm load shedding” will be reached. A potential effect could be that the quality of emergency contact details will suffer due to the perceptions resulting from previously interruptible sites moving to firm.

There are potential unintended consequences arising from a shift to firm for relevant objective A11.1d “effective competition between shippers and suppliers”. There may be a reduction in the take up of commercial interruption products, especially if back-up plant is de-comissioned (see additional comments), which would be detrimental to market liquidity at times of tight supply demand balance, this would result in higher spot prices and increased market volatility. Also, competition in the large industrial and commercial market may suffer both in the short and longer term if some suppliers currently active in this market choose not to offer tender services due to the additional burden of arranging tender submissions. Customer choice could be damaged if this discourages customers from taking up supply contracts with such organisations.

Additional Comments

- Preferred Tender Approach

An open tender process is our preferred option. Should there be a significant regime change as proposed then it is important to maximise the benefits of change for consumers, both those requiring to sell back interruption rights to their gas network and those choosing to remain firm. This approach allows consumers and shippers to discover and realise the true cost of interruption for those that participate successfully and allows for efficient networks to minimise costs for those who remain firm.

This is the only one of the options under consideration that meets the objective of reform to “enable shippers to place a value on the interruption they provide”. Views have been expressed that a more complex tender process may be a disincentive for some groups of consumers to participate via bids, this is not necessarily the case; there is an opportunity for shippers to assist the tender process and provide added value services to their customers. An open tender approach should provide an incentive for shippers and suppliers to develop innovative products and services, which would enhance competition in supply.

Conversely, administered prices do not allow for price discovery and may not reflect true costs for consumers. There is a risk with fixing the price that administered prices can lead to inefficient outcomes. In the scenario where DNs set the price for interruptible contracts slightly below the annualised cost of incremental investment this may be higher than the price at which a consumer may bid in via a tender approach. It can be argued that an administered price does not improve much from the current regime where a capacity discount is offered, this option does not allow the true cost of interruption to be discovered and does not offer the stated benefits of reform as fully as the open tender approach.

The hybrid approach, as with administered prices does not give the opportunity for shippers/consumers to place a value on the interruption they provide. By setting a cap price this effectively is as potentially inefficient in a similar way to the administered price option discussed above and will either encourage clustering of prices around the cap or pricing at the cap where there are few interruptible bids in a particular zone.

Gaz de France ESS would however like to see improvements made to these proposals to provide reasonable incentives to participate for shippers and consumers. As currently drafted the proposals do not allow for recovery of costs for at least 3 years after contracts have been finalised, it is unreasonable that shippers and consumers should face a cash-flow burden on behalf of DNs and we would encourage a portion of the option fee element to be paid on completion of contracts.

If there are not appropriate incentives in place for shippers and consumers to bid in for interruption services this could result in some zones contracting below required levels. Investing out of this by DNs could be less efficient than prices otherwise achieved via contracts and perhaps more importantly this could expose DNs to delay risks associated with the plan and build of pipelines to support a more firm network.

Whilst capturing the right tender based approach we would encourage the tender documentation itself to be understandable and straightforward to complete. It is likely that there will be a limited amount of time for validation by shippers and DNs and a clear process would provide a practical incentive for participation in tenders.

- **Compensation for Stranded Assets**

Gaz de France ESS takes the view that regulatory change should have a minimum impact to existing commercial commitments by shippers and large consumers. Should a change of this magnitude be made then consideration should be given to the assets left stranded by this regime change; specifically investments made for fuel switching capability, which could be rendered obsolete or partially obsolete by the changes proposed. Large gas consumers have made investment decisions to install the ability to switch to alternative fuel, these decisions were made on the basis that they would qualify for reduced transportation charges, such costs can only

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be clawed back over a number of years and truncating the interruptible regime may result in the costs of these assets not being fully recovered.

Consideration should be given to a post tender “parachute payment” scheme to compensate large users who have invested in interruptibility and have previously been classed as interruptible by transporters but who have not been successful in their tender bids.

Some of the costs incurred could be recovered for some interruptible sites via commercial interruption terms but these do not suit the business requirements of all large consumers and in any case the benefits of commercial interruptions are less certain than reduced transportation costs as they rely on prevailing market prices and interruptible consumers may not have supply contract terms which enable this.

A post tender application process for compensation could be constructed by transporters on an equitable basis in the form of a published methodology. This should reflect the economic loss incurred by large consumers who have involuntarily been moved from interruptible to firm, consideration should be given to the payback period expected via reduced transportation costs for the lifetime of the asset.

I trust these comments are helpful, if you have any queries regarding this response please contact me on 0113 306 2104.

Yours sincerely

P.Broom

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Gaz de France ESS