

Julian Majdanski
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
West Midlands
B91 3QJ

Alex Thomason
Gas Codes Development

Alex.thomason@uk.ngrid.com
Direct tel 01926 656379
Direct fax 01926 656605
Mob 07770 982225

www.nationalgrid.com

14 April 2008
Our Ref: AHT/Mod 0196 response

Dear Julian

Representation to Modification Proposal 0196: Alterations to shipper penalties for end user failure to interrupt

Thank you for the opportunity to respond to this Draft Modification Report (DMR). National Grid Transmission does not support Modification Proposal 0196.

We recognise the Proposer's concern with regard to the facilitation of competition between shippers with different types of portfolio, for example, the impact the "five strikes rule" may have on a shipper with a large portfolio of interruptible sites, however we consider that this issue is dealt with in paragraph 6.9.6 (b) (ii) of Section G of the UNC Transportation Principal Document that the Proposer seeks to remove.

If the Proposer does not consider that this paragraph provides adequate protection to Users with a large portfolio of interruptible sites, we would support a review of this clause, however we consider that implementation of this proposal and removal of the "five strikes rule" would send the wrong message to the industry that failure to interrupt does not have an impact on safe operation of the system.

We offer the following detailed comments in line with the headings in the DMR.

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

Standard Special Condition A11.1(d) so far as is consistent with sub-paragraphs (a) to (c), the securing of effective competition: (i) between relevant shippers

National Grid Transmission disagrees with the Proposer that removing the "five strikes rule" would better achieve this relevant objective. As stated above, we consider that the existing UNC provisions address the proportionality issue and therefore competition between relevant shippers is facilitated.

Furthermore, there is a possibility that implementing this Modification Proposal could mean that sites which persistently fail to interrupt may cause other customers to be required to interrupt in their place, which would not further competition between the shippers of such sites.

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

We disagree with the Proposer that implementing this Modification Proposal would not impact on operation of the Total System. While Transporters are able to isolate customers who continue consumption of gas following the provision of an Interruption Notice, this process has an associated cost in terms of the time and resource required and ultimately presents a risk to the safe operation of the Total System.

Interruptible exit capacity is sold on the basis that when firm capacity holders are not offtaking gas at their full firm rights, surplus pipeline capacity is available. To the extent that firm capacity holders do use their full firm rights, interruptible capacity holders must cease to offtake gas. Where they do not, pressures within the transportation system would fall to unsafe low levels and this must be mitigated by physically isolating the interruptible customers or declaring an Emergency to undertake firm load shedding.

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

a) Implications for operation of the System:

Removing the “five strikes” rule from the UNC significantly weakens the incentive on Users not to ultimately rely on the Transporters’ ability to physically isolate sites which do not comply with instructions to interrupt. If this Modification Proposal is implemented, the incentive on Users to apply pressure to persistent offenders (where failure to Interrupt is not deemed to result from Force Majeure) is greatly reduced, which does have implications for Transporters for operation of the System, in terms of a potential increase in the frequency of physical isolations required.

b) Development and capital cost and operating cost implications:

Should the risk of increased physical isolation identified in paragraph a) above arise, there would be an increase in Transporters’ operating costs resulting from additional manpower requirements.

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

We recognise that under the existing UNC arrangements, there is a possibility for a Transporter to recover the costs and expenses incurred during a physical isolation from the relevant Registered User.

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

No such consequences have been identified.

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

Advantages

National Grid Transmission does not agree with all of the Proposer's stated advantages. We do not consider that removing the current "five strikes rule" would necessarily ensure that competition is secured between relevant shippers/suppliers as detailed under paragraph 2 above.

We note the Proposer's stated advantage that implementation would remove the perceived uncertainty surrounding the need to justify that reasonable steps had been taken in the event that a customer had failed to interrupt. Where any uncertainty exists, it should be possible to resolve this without resorting to the disproportionate action of removing the entire incentive.

Disadvantages

National Grid Transmission considers that implementation of this Modification Proposal has the following disadvantages:

- It weakens the incentive on Users to apply pressure, where necessary, to ensure customers understand the safety critical nature of their supply contract and have the necessary processes in place to effect timely interruption
- It potentially increases the requirement on Transporters to physically isolate sites, thereby slowing down the isolation process and imposing a risk to safe operation of the system
- Where additional physical isolation is required, Transporters would incur additional operational costs and potentially face increased resource requirements

Finally, we consider the fact that the "five strikes rule" has never had to be enforced, even though failure to Interrupt charges are levied on average every winter, is evidence that the existing arrangements act as a sufficient deterrent to ensure compliance with interruption notices and hence reason not to implement this Modification Proposal.

Yours sincerely

Alex Thomason
Senior Commercial Analyst